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THE SHORT VIEW AND THE LONG IN ECONOMIC POLICY

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Once upon a time an academic economic theorist, by some freak of fate not likely to be often repeated, got himself slightly entangled in the machinery of formulation of government economic policy. What I plan to tell you tonight reflects largely, though not I hope too explicitly, what the process of policy-formulation did to his academic theorizing, and what his theorizing failed to do to the process of policy-formulation.

As an active participant in the policy-making process, the academic theorist suffers from a number of handicaps more or less peculiar to himself. For purposes of teaching, or of acceptable writing for his restricted audience of fellow-theorists, his conclusions are of little importance; and what matters above all is the rigor and elegance of his manner of reaching them. For policy, on the other hand, conclusions are vital, and often are all that is vital. For the purposes of academic theorizing, the premises the theorist starts from may without serious penalty be arbitrarily selected, narrowly restricted in range, and purely hypothetical in nature. But the selection of premises controls the conclusions reached, and for policy-determination it is therefore vital that all the important variables be covered by the analysis, and that the conclusions be not affected by the use of premises which are irrevelant for their purposes or less realistic than it is possible with the aid of available information to make them. To violate these rules in policy-making is to be guilty of the grossest irresponsibility. If he is not to be wholly in the way of the policy-maker, therefore, the theorist must emerge from his ivory tower,—which is almost as hard as to return to it.

The theorist's habitual methods of analysis are such as to lead to "right" or "wrong" answers to manufactured problems, the premises and the criteria of rightness being so chosen as to make this not only possible but necessary. For the policy-maker, however, the problems are for the most part not of his own devising, but are presented to him by outside forces, in vague and ill-defined fashion, and what he asks of his advisers consists as much of help in determining what the problems are as of help in finding solutions for them. The theorist here is likely to find himself uninformed and unskilled.

The theorist's analysis is ordinarily couched in descriptive as distinguished from normative terms. If choices as between social values influence his thought, these choices are largely left implicit in his selection of premises, and are rarely, and then usually apologetically, expressly avowed. The policy-maker, however, is rarely satisfied with purely descriptive analysis. He insists that he be advised not only what will be the objective consequences of a specific line of action, but whether or not these are desirable consequences. While he has always some notions of his own with respect to the values which policy should serve, in my experience he always demands of his economists that they guide him also in the determination of what is socially desirable, and he expects the economist to acknowledge and to display some professional competence in giving such guidance.

There are always a number of different values to be considered, moreover, and satisfaction of one often involves disregard of the other. This makes necessary a sort of weighing process, in which the decision is presumably made partly on the strength of quantitative information as to the number of persons affected by alternative courses of action, their economic status and needs, and so forth, and partly on the basis of a qualitative ranking of values in terms of some sort of scale of worth. The theorist as such here also lacks experience. He is hampered, moreover, by his tendency to dissect the mental processes by which decision is reached in such matters, and he tends to feel and to give discomfort by his reluctance to express in definite and assured terms the conclusions which he knows he has reached only by vague and imperfectly communicable processes of thought.

The effect of the action on the subject is all that the theorist has been trained or conditioned to think about with respect to public policy. The official and the legislator, on the other hand, should, and in any case invariably do, think also of the effect of the action on the actor. The economist conditioned to the purity of abstract thought is liable to be unreasonable in his refusal to recognize that the official, in choosing his time for action and his manner and degree of action, must give regard to their impact on his relations with superiors, colleagues, Congress, and the public, and to their effect on the prestige of his agency and the morale of his staff. But the official must operate in this way if those with whom he has to deal from day to day are to give him that coöperation and good will which are essential not merely for his own personal success and comfort but for the satisfactory execution of his functions.

The higher officials in Washington, whether they be political appointees or career men, in my opinion, need make no apologies for their standards even to college professors, elect of the elect though we be. As far as I have observed, the higher officials in Washington as a group work as hard

as disinterestedly, coöperate in common tasks as loyally, think as straight within their own special fields of competence, as does the ordinary run of college professor. They certainly do not live on the moral heights continuously, but they are called upon more often than academic men to rise to them, and, in my honest judgment, they respond to the call as often and as fully as in all probability we ourselves should under like circumstances.

In one respect in particular, of special interest to economists, I have observed them with ever-increasing admiration—namely, their patience and generosity in their dealings with their economic advisers. In the course of expounding the economic verities, the economists repeatedly expose their divided counsels. They especially reveal that conflict within their ranks between ancient dogmas and resurrected or newly-invented heresies with which much of the remainder of my talk will deal. Those officials who come into frequent contact with squads of economists, as they note the repeated conflict of testimony, must feel at times like the English judge who remarked that he had for years been trying motoring cases in which two cars, each of them on the right side of the road and each of them stationary, had been involved in a head-on collision—or even like that magistrate in a native court in Ceylon who, disgusted by the flagrant contraditions in the evidence of the successive witnesses, said to the officer of the court: "Call the next liar." This failure of the economists to speak as with one voice is a severe trial for the officials. I suspect, however, that they would find us even more trying if, when unpalatable advice was offered by one economist, they could not feel that there was a good chance that with a little search another economist could be found happy to swear that the advice which had been given was incredibly bad economics, or even was "orthodox" or "sound" economics, which are now very forceful epithets indeed in some high quarters.

To proceed with my catalogue of the handicaps of the economic theorist as a policy-maker. The economists of my generation and earlier were trained to concentrate on so-called long-run analysis in their pure theorizing. When they ventured into the discussion of questions of public policy, they accordingly tended to be preoccupied with the long view, with the effects which a given action would have on the more distant future, and to disregard or to weigh lightly its more immediate effects. A good illustration of what I have in mind is the famous poor-law controversy in England in the 1830's. The leading economists of the time all emphasized the allegedly injurious effects on the productive capacity and the will to work and to save of the poor which would result from generous, long-sustained, and assured poor-relief to the able-bodied. They stressed even more the growth of population and the consequent impairment of the basic earning power of labor which they believed would ultimately result

from any substantial liberation of the poor from dependence solely on their own efforts for the means of subsistence of themselves and their children. The extreme conservatives and the extreme radicals of the time—who, as so often in history, were on the same side on a specific issue—and also the humanitarians and clergy, stressed in opposition to the views of the economists the moral and political rights of the needy to be given food and shelter with a minimum of humiliation and of deliberate interference with their accustomed patterns of family and social life. In this instance, as in many others, it was possible plausibly to picture the clash between the long view and the short as a clash between the humane and the hard-hearted, although the economists of the time of course insisted that the policy they advocated, while immediately severe, would ultimately prove to be the kinder of the two to the poor.

Although it is obviously not without direct relevance to present-day problems, I am not concerned here with the merits of this ancient controversy. I have cited it only to help make clear the differing turn which may be given to public policy accordingly as the long view or the short is dominant, and to illustrate the characteristic approach of the orthodox economist, from that day to this, to policy questions.

Now this habit of taking the long view is not only characteristic of the orthodox economic theorist, but in the discussion of matters of economic policy it is often the principal characteristic by which he can be distinguished from other professional economists or even from the intelligent layman.

In the day-to-day process of adapting public policy to meet felt needs, on the other hand, the problems always manifest themselves in the form of immediate pressures of one sort or another, and the legislator or official tends to look for correspondingly immediate solutions. This is "natural" behavior, in the sense both that it is what one should expect to occur, and that it has its socially useful aspects.

Legislators and officials are typically busy and harried men. Except under the special circumstances of major election campaigns, when the pattern of party debate may by chance turn on the relative merits of the long-run programs of the contending parties, and except for the occasional opportunity of the legislator or the official to divest himself of the cares of the moment and, assuming the rôle of the statesman, to give patient examination to the needs of the future, there is constant preoccupation with the problems which are immediately pressing, and little stimulus to take thought as to whether the proffered solutions are likely to prove lasting ones. There is especially little urge to go hunting for problems which are not yet felt as such but which may prove troublesome in the distant future.

It would be a mistake, however, to take for granted that the immediate

solution, the quickly-working one, is of necessity a defective one. The immediate solution to a problem no doubt frequently serves also with tolerable satisfaction as a permanent one, and in some cases may well be identical with the optimum permanent solution. Many problems, moreover, are themselves temporary in nature, and require therefore only temporary solutions. The immediate solution may be the only one for which public acceptance is obtainable, so that there is really no choice. There are circumstances, moreover, under which even a benevolent dictator, with no need to give heed to public clamor, would be wise to adopt a partial and temporary, but quick-working, solution in preference to a more complete and more lasting one which would yield its benefits only after considerable delay. Mr. Keynes, speaking with at least a trace of the accent of revelation, has told us that in the long run we'll all be dead. What I presume he meant by this apparently crystal-clear dictum was that if we took the long view, we, including our otherwise potential posterity, would—or might—all be dead—or dead or unborn—before that view could justify itself. This warning is scarcely much needed either by the public official or by the ordinary legislator, but for the reasons I have stated and not only because in respectable communities the dead and the unborn cast no votes. But for the academic economist it is a sound warning, and perhaps even a needed one. In times of severe social strain there may be real menace of catastrophe if there is not resort, even at the cost of bad after-effects, to a quick-working remedy which tides the economy over the crisis. At such times, the patience of the orthodox theorist may be out of place. But in the past, at least, such times have come only rarely.

Closely related to the habit of the theorist of preoccupying himself with those effects of proposed legislation which are more distant in time is his habit of searching for the repercussions of legislation which are so-to-speak more distant in space. Politicians are experts in tracing one kind of repercussion, the *political*. But they are indisposed to take account of *economic* repercussions, as the history of tariff controversy abundantly demonstrates. This indisposition, I think, they share with the general lay public, to whom, in matters of economic analysis, one step at a time is enough, if not too much. And since what the public doesn't know can't hurt the legislator, he has at least no selfish motive for following the theorist in his unsteady and circuitous wanderings from the proximate to the secondary, to the tertiary effects, and is content to act in terms of the seen, with worry about the unseen left to the economic theorist as a sort of occupational psychosis.

I do not include in my list of the handicaps peculiar to the economic theorist as a participant in the policy-formulating process two items which would probably appear high on such a list if prepared by those with whom the economist works—namely, first, his ignorance as a rule of the

legal framework and legal folklore to which legislative drafting and the administration of the laws must conform; and second, his lack of experience and insight with respect to what is and what is not administratively feasible. These are omitted, however, not because the ordinary economist does have command of these skills, and not because they are unimportant, for such is decidedly not the case in either instance. But barriers to effectiveness of this general type, instead of being peculiar to economic theorists, are common to all kinds of specialized participants in a coöperative enterprise such as policy-formulation which makes demands upon a wider range of skills than single individuals can reasonably be expected to possess. The lack of legal and administrative training on the part of the economic theorist may be regrettable, but it is not fatal as long as he is not permitted to decide policy questions all on his own.

In the ordinary course of events, policy is, of course, ultimately decided not by the technical experts as such, whether they be economists or engineers or political scientists or sociologists, but by the legislators and the responsible executives with the aid of advice by the experts. That excellent formula, "The expert *should be* on tap, not on top" would be almost equally valid if it went, "The expert *is* on tap, not on top." This applies no more and no less to the economist than to the other professions—except for the lawyer, who is on tap *and* on top, and omnipresent, omniscient, omnipotent, and omnivorous in addition. In the process of tapping the experts for their specialized knowledge and skills, the technical equipment of one profession provides the offset for the gaps in the capacities of the others. And for those many things which in a world not clearly designed for full comprehension by man are beyond human knowledge, the lawyer always stands ready to provide precise formulae acceptable to the Supreme Court as unambiguous expressions of legislative intent.

Even with these two items omitted, the list of handicaps of the academic economic theorist as a participant in the formulation of public policy which I have given is discouragingly long. Others, moreover, would probably think they could easily make it even longer and even more discouraging to the theorist. Let it be clear, however, that I am not identifying the few "academic economic theorists" with economists in general, and that I recognize that there are many other types of economists whose serviceability in policy-formulation and in other activities of government has been amply and unquestionably demonstrated.

The non-theoretical economist, in particular, or the economist who disclaims any theoretical prejudices, is in fact much more adaptable to public service than the economic theorist with some body of theory to which he remains faithful, whatever its species. The non-theorist can adjust himself quickly to the changing flow of events and issues. He is not bound by any set mode of analysis. His mind but lightly encumbered by doctrines

dogmas, preconceptions, or even in some cases thoughts, the fortunate man can move freely in any direction, wherever the wind may list. If he feels the need for guidance, there is always available today yesterday's position of his official superiors and tomorrow the different position they took today. In finding good-sounding reasons for what has already been decided upon, he has a distinctive and useful function, both because the vitality of the democratic process is dependent upon our continuing to believe that it provides us with reasonably wise and beneficent government, and also because statesmen's intuitions have often a genuine economic logic dimly in their background. He shares also with other types of economists the useful rôle of finding good uses for bad laws, and thus contributes to the most important function of the art of public administration: the making of silk purses out of legislative sows' ears.

The handicaps of the academic theorist of the older dispensation as a useful member of a policy-formulating staff are probably even more clearly visible to other members of the *economic* profession than to members of *other* professions. There is in fact a definite cleavage between the habits of thought of this species of theorist and those of other groups in the profession, including many of those who help guide Leviathan in its daily gyrations. The continued depression has obviously made a deep impression on the latter, and made them impatient of or even violently hostile to the traditional corpus of economic theory, which they look upon as an instrument for the exercise of the tyranny of the dead mind over the living. They seem to believe increasingly that its rôle has been, even in the long-past days of its almost unchallenged dominance, "to light fools the way to dusty death." The world it approvingly describes of atomistic competition, and the ethical approval which, as they read it, it translates to the actual world by its failure clearly to contrast the ideal with the real, make it appear to them too far divorced from the present-day realities and values to warrant faith in its usefulness as an aid to the guidance of social policy. Instead of the economy of effective competition, of freedom of individual initiative, of equality of economic opportunity, of steady and full employment, pictured in the traditional theory, they see an economy dominated by giant corporations in almost every important field of industry outside agriculture, an economy marked by great concentration of wealth and economic power, and great disparity of income and of opportunity for betterment. They note the apparently unending flow of evidence from investigating committees and courts of the flagrant misuse of concentrated economic power. They observe with alarm the failure of our economy for ten successive years to give millions of men able to work and anxious to work the opportunity to earn their daily bread. And seeing the actual world so, they refuse to accept as useful for their purposes a type of economic theory which as they read it either ignores these evils or treats

them as temporary, self-correcting aberrations or excrescences of what is basically a sound economic system. Having rejected the conventional picture of the system, they tend increasingly to adopt another one, rapidly approaching equal conventionalization, but following another pattern, in which the evils are inherent in the system and cannot be excised without its drastic reconstruction and its substantial operation by government.

Their account of the traditional economic theory is not wholly a caricature, but it is overdrawn and distorted. It deliberately disregards the failure of government to behave according to the rules laid down by the orthodox theory as necessary if its conclusions are to have practical validity, and it especially overlooks the long line of great men in the orthodox tradition, by no means already at an end, who by no stretch of the imagination can be charged with having exploited it to protect evils against reform. But this is in the present connection significant only as it prejudices these zealous reformers against utilizing for their own good purposes the aid the old doctrines can still furnish. Their picture of the evils of the present economic system may also be painted in too strident colors, but it is undoubtedly close enough to the truth to make complacency indefensible. Where in my opinion they are most gravely in error, however, is that in rejecting lock-stock-and-barrel the traditional economic theory, they are abandoning habits of mind and analytical tools which are still essential if evils are not only correctly to be identified but are to be ascribed to their proper causes, and if remedies are not to be advocated which may prove worse than the diseases they are prescribed for.

As a by-product of the breach with the older body of doctrine, the economic profession is tending to wipe out that line of cleavage which in this country has been so marked almost since the foundation of the Economic Association between the teachings of the professional economists, on the one hand, and the practices of government and the beliefs of the lay public, on the other hand. I, for one, would welcome this reconciliation if it resulted from our final conversion of the lay public. I think, however, that the reverse has happened to a substantial extent, and that economic doctrine is now following public opinion and government practice much more than it is influencing them. For obvious reasons which have no counterpart in this country, this is now of course the routine situation in totalitarian countries. Its occurrence in this country is not, I am certain, due to any significant extent to a new subservience of the profession to external opinion. Its explanation lies largely, I think, in the fact that under the impact of depression conditions the economists have in large numbers abandoned the traditional economic doctrines, with their emphasis on the long view, and have turned instead to the short view which government and the lay public have always tended to take. It is true that in adopting the short view many of the younger economists have not merely taken

over the lay notions bodily. Some of them have, in fact, given them a theoretical elaboration which for subtlety, refinement, and elegance need make no apologies to the older economics, and which remains faithful to older theorizing in at least one respect, that the tradition of unintelligibility to the layman is scrupulously observed. It is the quality of the judgment displayed, and not the quality of the analytical skill, which I venture to question. No matter how refined and how elaborate the analysis, if it rests solely on the short view it will still be close to the layman's economics and still be a structure built on shifting sands.

My aim this evening is not to praise the old-fashioned economic theorist, but only to help protect him from premature burial. The strongest line of defense I find available is the argument that he is the special custodian for society of the long view in economic matters, and that even in troubled periods that view is entitled not to undisputed dominance but to a full hearing. Since its value with reference to any specific issue can be tested only empirically and therefore only after a substantial period of time has elapsed, I shall present my case for the long view forward by taking the long view back into history with respect to several of the doctrines in the orthodox tradition. Not to make it too easy for myself, I shall deal only with doctrines that have been so conventionalized through time that they seem to the short-viewers flagrant examples of the freezing of doctrine into dogmas whose venerability is their only claim to virtue.

An underlying characteristic of the orthodox Anglo-American economics during its entire period of dominance was its basically optimistic outlook on the prospective trend of events. As a cursory inspection of the files of presidential addresses before the American Economic Association and its English prototype would confirm, the economists of the time believed that, despite wars, mistakes in government policy, and cyclical disturbances, private initiative, technological progress, and the improvement and wider diffusion of education had resulted in and would continue to result in a slowly rising secular trend of per capita income, enjoyed by steadily-growing populations. Imbued with this moderately optimistic long view, the economists listened neither to the occasional prophets of impending and lasting woe nor to the more frequent peddlers of patented devices for antedating the millennium. For the period up to 1914 at least, they proved on the whole to have been right. In the flush days of the 1920's, however, we were told: that what was then would continue to be, forever and ever; that the problem of the cycle had been solved by the Federal Reserve Board; and that we had entered upon a new era of perpetual boom. The great bulk of the economic profession, taking the long view, refused to give credence to this blissful picture. How right they proved we are unfortunately only too well aware. The perpetual boom having come to its dramatic end, it later subsequently became increasingly apparent that all the days

of the 1930's were to be black, or gray. Some economists, simulating too closely, I think, the technocrats' over-emphasis of the purely technological elements in economic process and under-emphasis of the compensating and stimulating functions of the price system, and responding too sympathetically to the prevailing depression, have announced a second new era, but this time an era of perpetual gloom, the advent of the stagnant economy. There is even developing among the preachers of the new pessimism impatience with talk in terms of the concepts of business-cycle analysis, as carrying the unnecessarily optimistic implication that what goes down may some day come up. I have no doubt myself that these economists have genuinely succeeded in finding historical trends in our economic structure and process which operate to make the attainment of full employment increasingly difficult. But that must always have been true, and the weight to be attached to such findings should not be decided until equally ardent search has been made for factors operating in the opposite direction. Here, I take it, is an instance where appeal to the long view may save us from accepting as an adequately historical approach what fuller appeal to history would suggest was rather a hysterical approach.

It has long been standard dogma that budgets must be annually balanced, and that public debts must not be allowed to grow indefinitely. Governments, of course, have frequently violated the dogma, and not only have such violations not invariably been followed by disaster, but it would be a difficult task to disprove the proposition that in a substantial number of instances they proved highly beneficial. But as I read the history of the budget-balancing dogma, it developed as a convenient rule-of-thumb protection against the defense of uncontrolled expenditure and continuous deficits by the plea that the appropriate time for budget balancing was not quite yet but just around the corner. I am even convinced that most of the distinguished advocates of budget balancing during the nineteenth century would have conceded, though no doubt grudgingly, that even a continuous growth of public debt, given a moderate and asymptotic pattern of growth, would not in fact necessarily lead to disaster. On this question of the menace of a growing debt that virtuoso of the long view, Adam Smith, maintained his usual balance. When, during the American Revolutionary War, a young friend, Sir John Sinclair, lamented to him the misfortunes, presumably financial, in which the war was involving Britain, and exclaimed, "If we go on at this rate, the nation must be ruined!", Adam Smith replied, "Be assured, my young friend, that there is a great deal of ruin in a nation."

But when for the old dogma that budgets should be annually balanced there is substituted a new dogma that budget balancing is merely a fetish, that as long as there are unemployed resources, whatever the cause of

the unemployment, governments should point with pride to their lusty and bouncing deficits, instead of apologizing for them or shamefacedly concealing them as if they were born out of wedlock, the long view tells me that while this may not be the road to ruin it at least blazes a trail to it. It must not be forgotten that spending in itself is for the spenders the supreme pleasure, is the politicians' delight, and that what temperance in resort to it has prevailed in the past has been wholly due to the belief that somebody, some day, would have to be taxed to pay the bills. Even if this belief were properly to be regarded as completely a myth, it would still be one of the large class of highly useful myths.

Two related theses of the liberal tradition in Anglo-American thought have been: first, that under a system of free individual enterprise a higher level of economic well-being was attainable than under any other form of economic organization; and second, that a society organized on this economic basis was the only one compatible with the maintenance of political democracy. These, of course, are dogmas, not axioms, one economic and the other political in nature. Now that political democracy is under attack, frankly from the fascist right and as menacingly though not as frankly from the communist left which, like the serpent, licks its victim over before it swallows it, the political dogma has become increasingly acceptable even to those who reject the economic dogma. My concern here, however, is only with the economic dogma, whose acceptability has been destroyed or seriously impaired even for many economists by ten years of sustained and severe depression.

There are perhaps some economists who would deny that an individualistic system is at all desirable economically. This view I will not discuss, since even if I were to reject a substantially individualistic system on economic grounds, I should still prefer it, on non-economic grounds, to what seems to me to be its only practicable alternative, a comprehensively-planned economy under which, as some one has said, "All our hairs would be numbered, and all gray." There are many, however, who hold the view that while a system of free individual enterprise would be ideal if attainable, it is no longer possible in these modern days of great concentration of ownership and control of productive facilities, where the economic units are to a large extent huge corporations and trade unions rather than the single individuals of traditional economic theory, and where such competition as persists tends increasingly to be competition between giants instead of the atomistic competition of orthodox theory, and therefore to be cost-raising rather than price-reducing.

When, some four or five generations ago, freedom of private initiative was first systematically advocated as the ideal basis for an economic system, the menace of monopoly to the proper working of a system so organized

was clearly perceived. It was then widely believed, however, that, although business-men admittedly found abhorrent the impact upon themselves of other persons' competition and grasped every opportunity to escape it, monopolistic power could not come into being on a large scale, or at least could not long maintain itself, except with government aid and sanction. In justice to those who were of this view, it should be noted that the grant of a corporate charter was then universally regarded as the grant of a special privilege potentially dangerous to society, and it was therefore then assumed as a matter of course that such grants would be made only sparingly and would be jealously circumscribed, in each specific instance, by restrictions as to permitted size, nature and range of activities, and right of participation in the civil liberties enjoyed by genuine individuals.

Whether now, after several generations of unrestrained grant of corporate charters and of great development of mass-production requiring large economic units for its operation, it is still possible, through proper regulation and restriction by government of the activities of large corporations, to restore an essentially competitive price system, is a question to which I freely confess I do not see a clear answer, although I look forward eagerly for much-needed enlightenment to those sessions of this meeting where this question will be discussed by an exceptionally-qualified group who, I have reason to know, have been giving it very serious and disinterested consideration. The only point I wish to make now is that the old dogma, that monopoly power is basically the product of governmentally protected or sanctioned special privilege and will not survive on a large scale if such special privilege is withdrawn or kept to its practically minimal limits, still has sufficient plausibility to warrant further inquiry. It seems to me a reasonable hypothesis, one worth examination, for instance, that if much of the impressive array of governmental encouragements to monopoly could be removed, or, where removal was impracticable, if government regulation were directed to foster cyclical patterns of price-behavior following the competitive pattern, the chief evil product of monopoly, the price-inflexibility problem, would shrink to easily tolerable dimensions.

Consider for instance, some of the elements in the prevailing pattern of government relationship to monopoly and to price-inflexibility. Promiscuous issue of wide-open corporate charters by the states; until within the last year or two slack and faint-hearted enforcement of the anti-trust laws, already gutted by court sabotage; protection of monopolistic price-structures by the federal tariff; positive encouragement of monopolistic price practices by such legislation as the N.R.A. act, the Webb-Pomerene act, the Guffey Coal act; so-called "fair-trade" laws which compel business-men to act as if they were monopolists even if they wish not to; concealed protection of monopoly by doctored building and other ordinances; tacit encouragement to monopoly through acceptance in government contracts,

systematically and without protest, of identical bids and of list prices higher than even the monopolists can obtain in what remains of the open market; approval, and even enforcement, for regulated industries such as railroads, of rate policies which make rates behave even more perversely, as far as cyclical flexibility is concerned, than the prices of unregulated monopolies; encouragement to and protection of labor monopolies; deliberate schooling of agriculture in the pleasures and profits of monopolistic behavior.

The record of government encouragement to monopoly, when looked at in conjunction with government's spasmodic efforts to enforce competition and its intermittent clamor against monopoly, reminds me, and justifiably so, of an old cartoon I once saw, depicting a political demonstration in the streets of London, in which the determined-looking marchers carried two banners, one of which bore the slogan, "NO MONOPOLY!" and the other the slogan, "NO COMPETITION!"

All that I suggest, therefore, with respect to the dogma that free competition can substantially survive if government gives it due protection and encouragement, is not that its validity under modern conditions is obvious, but that we have not the right definitely to reject it before it has been given an honest and thorough test.

As a final illustration of the possible survival of usefulness of old dogmas which were the product of the long view, I cite the proposition that the timidity of capital makes the maintenance of "business confidence" necessary if investment is to be maintained at the level required for sustained prosperity. According to this dogma, the capitalist will hoard his own money, or will send it abroad—be there any safe place to send it—and will refrain from borrowing other people's money for investment purposes, if even a faint shadow is cast on the political security of his investment. The spokesmen for capital have found this dogma very much to their liking, and have been claiming for some six years that a political shadow *has* been cast over the security of their investments, and that this has been responsible for the low rate of new investment, and consequently for the persistence of depression. To reinforce their claims, they have done their trembling in public, with vocal accompaniments.

There is no specific invocation of old dogmas, I understand, which the economists of the new enlightenment regard as more absurd, more insubstantial and unsubstantiated, than the claim that the timidity of investment capital under the impact of political fears has been a significant factor in causing the low rate of new investment of the past six years or so. The capitalist, they agree, is a timid beast, but they assert that it is only the risk of loss he is really timid about. He invests, they say, when he sees a clear chance of profit, and hoards when he doesn't, regardless of whether the

government of the day is stroking his fur or barking at him. They point out that the annual volume of new investment was even smaller in 1931 and 1932 than in any year since 1933, although if in these earlier years political shadows were being cast on the security of investment they could not have been more than mere foreshadowings of prospective shadows. They cite also the substantial recovery of the new investment level in 1936-37, when capital was still insisting that it was scared. They have even produced a statistical proof that "confidence" has nothing to do with the volume of investment, which takes the form of a demonstration that the rate of investment is so highly correlated with the rate of retail sales or of consumers' spending that no other factor need be invoked to explain its major fluctuations.

To my perhaps naïve mind, the dogma still carries some shreds of credibility, despite those weighty inductive refutations. As I understand it, the dogma is not that the degree of confidence in the intentions of government with respect to invested capital *alone* governs the rate of investment, but merely that some minimum degree of such confidence is a necessary condition of the continuance of investment at a high level. The correspondence of the rate of investment with the rate of retail sales seems at least as available to support the thesis that the rate of investment determines the level of national income, to which thesis even the most timid capitalist will happily subscribe, as to support the argument that the rate of spending of income governs the rate of investment. But the only prac-
has any designs on capital, it would be wiser to bite before and bark after-
tical lesson I care to draw from the possible validity of this dogma of the timidity of capital in the face of political threats is that, if government
wards, if bark it must.

I hope—but do not expect—that I shall not be misunderstood as holding that full and invariably appropriate guidance for government policy under present-day conditions can be found in the old dogmas or in what could until recently be called "accepted" economic doctrine. I know no economist who would take this position, and if one were to be found I should agree that he was trying to make a fool's paradise out of his private ivory tower. My claim is much more moderate and, I hope, much more sensible. What I contend is that for various reasons, but chiefly as a psychological reaction to the impact of continued and acute depression, some economists have been discarding too indiscriminately their inherited intellectual ballast, with the result that they sway too easily with each passing wind. With apologies to you for the form in which I state my claim, I contend merely that there is life in the old dogmas yet. I concede that new light is needed and all that I ask is that our minds be kept open to acceptance, strictly and only on their merits, of both the old lights and the new.

Nor do I ask for a sympathetic hearing for the old dogmas in the belief

or desire that such a hearing would lead to a cessation or even slowing-up of the present endeavors to find remedies for prevailing evils through positive government action. Obedience to some of the old dogmas would in fact lead to an intensification of governmental action. As far as I am concerned, I have been much more impressed by the undue inertia of government in the face of acknowledged evils than by its rash venturesomeness in action, although I think I have seen both qualities displayed. It is not a middle way between action and inaction, therefore, which I urge. It has been said that throughout all the history of man Confucius alone succeeded in making the middle way either emotionally exciting or intellectually stimulating, and I have my doubts even about Confucius. As many persons who appeal to the middle way use the term, it really becomes a disguised plea that we should halt between the premises and their conclusions. That is not what I am pleading for. Let evils be dealt with, promptly and decisively. But in choosing the manner and direction of action, let us pay heed to the old as well as the new wisdom, and let us especially beware of old poisons in new bottles.

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ACHILLES' HEELS IN MONETARY STANDARDS

The international gold standard fell in an epidemic of Midas' disease but it was attacked through its own Achilles' heel. The attempt to maintain a fixed price for any commodity which may rise, but not fall, in money value, is, in the long run, all but hopeless. Important paper currencies were stronger than the gold currencies so long as they were kept flexible in gold value but they became at least as vulnerable as any gold currency when a relative fixity of exchange rates was sought and, still more, when a rise in their gold value was precluded and a fall regarded with equanimity or deliberately designed. A flexible exchange value of a currency, within a not very narrow zone around the "point of equilibrium," is essential to forestall the success of bear speculators and defeat of the exchange policy. The vulnerability of a currency to speculative attacks is coeval with other weaknesses in any currencies yet adopted. A money with a goods, rather than a gold, reserve offers the greatest promise not only of invulnerability but also benefaction.

The international gold standard has now, for some years, been moribund, if not dead. It is true that the United States, in somewhat unconvincing fashion, still proclaims its adhesion and allegiance to the royal metal. So far, however, as money is concerned, it is in no better state than China used to be when it had a metallic monetary standard (silver), of equal virtue with gold, maintained in isolation from the rest of the world.

For many decades the allegedly outstanding advantage of the gold standard was its international character. One or the other (or both) of the great international currencies, the pound sterling and the dollar, was always synonymous with gold, and adherence to gold therefore meant stable exchange rates against at least one of these important currencies. With the general abandonment of gold standards, the advantage of automatically stable exchange rates is now lost except, possibly, for the dollar as against the Belgian franc.[1] In purchasing power, gold has not, over a lengthy period, been more stable than silver, and it has not been as stable as a well-managed paper currency. The maintenance of a gold standard which is no longer used in the bulk of international transactions therefore involves gold-standard countries, in *equal* degree with silver or paper-using nations, in the uncertainties of exchange, and, in possibly *greater* degree, in the uncertainties of price levels. No authentic gold currency, nor any potential *bloc* of such currencies, is likely to take the former or present place of either the pound or the dollar in international transactions, so that, while present conditions continue, the dollar or any similar near-gold currency is subject to all the exchange vicissitudes which affect its neighbors. Gold has, moreover, rather less potential stability in real value than of yore. There now seems little reason, therefore, for giving gold a place, *of right,* in our monetary system.

The international gold standard fell in an epidemic of Midas' disease

[1] Exchange rates are, of course, a two-sided matter and no stability of any one currency, in gold value or anything similar, will now, of itself, provide stability in the rate of exchange against other currencies. The Belgian currency, however, is, rather uncertainly, tied to gold; and the dollar-belga rate is substantially stable.

but it was attacked through its own heel of Achilles. With the value of gold steadily rising in terms of commodities, from 1929 to 1933, every shrewd trader avoided converting gold into goods or into gold currencies (which might very probably fall, but could not rise, in gold value) and sought the opposite course of converting goods and currencies into gold. To buy goods with gold, or gold currencies, was to invite a loss of money. To hold what were, in all probability, merely *ad interim* gold currencies was likely to be still more disastrous. The result was such pressure to secure gold as made the world forget that, if man cannot live by bread alone, he has still less chance of living by gold.

Since production and trade depend upon the spending, and are paralyzed by the hoarding, of money, we were brought to the brink of economic as well as monetary collapse. So long as a true gold standard was maintained, and gold prices kept on falling, the malady of hoarding tended to persist. The hoarding of gold caused a manifold contraction in paper surrogates. Gold hoarding thus fed upon itself, the appetite grew with eating, and, as a result, our substance disappeared.

When gold first came to be used as a medium of exchange it did not differ in any fundamental way from any one of a number of similar commodities. Even so long as gold was the principal medium employed in the typical exchange of goods for money it retained most of its commodity aspects. But the establishment of gold as the *de jure* monetary standard (instead of the *de facto* standard it had originally been), and, more particularly, the growth of supplementary media of exchange, such as convertible bank notes and bank credits, gradually set up a vitally important distinction between gold and all other commodities.

Governments adopting the gold standard agreed directly or indirectly, and without any reservation as to amount, to give a fixed weight of gold per unit of convertible legal tender to all persons presenting such legal tender at the designated place of redemption.[2] The consequence was that, however great the demand for gold, its price, in the surrogates actually used as money, could not rise. When the money price of gold could not rise, while its value in terms of commodities was soaring, the note-issuing authorities were thrust into the uncomfortable position of guaranteeing to sell, at a fixed price per unit, unlimited quantities of a metal of steadily rising real value. The gold was then, in fact, rising even in money value, though the pecuniary machinery prevented this fact from coming to expression in price.[3]

[2] The redemption, in the first instance, was usually done by private banks for their own, as well as for the government, notes, and for deposit credits. This was a matter of convenience only. The ultimate responsibility lay with the central note issuing authorities whoever they might be.

[3] The distinction between "money value" and "price" is, no doubt, esoteric but it is real. Money value and price are synonymous when price is established through freely

The position was tenable so long as bank notes were practically gold certificates, with a very high percentage cover (as was substantially the case with Bank of England notes from 1844 to 1914), or so long as bank deposit credits were not used in any large measure as a medium of exchange. But, as banking in fact developed, the monetary system was put on a precarious base.

It is a commonplace that the supply of gold responds comparatively slowly to increases in its value. There is little tendency therefore toward a checking of any sudden rise in the value of gold through an early increase in output; and, as has already been noted, there is no tendency whatever, under gold standards, to check demand through a rise in price.

The greater the hoarding of gold the higher will its value ascend, especially when the redemption of surrogates for gold (whether convertible paper or bank deposits) reduces the total supply of money. The use of gold bars as monetary reserves furthers this process since the gold bars when paid out can obviously not enter the domestic monetary system. If an attempt to maintain a stable reserve ratio is made, the reduction in the total supply of money, in a partial reserve system, is extreme. Gold hoarding then has a multiple effect, augmenting the decline in velocity by a great diminution in the quantity of money. With the consequent sharp rise in the value of gold, the obligation of the guardians of a gold standard to pay it out at a fixed price constitutes a bonanza to the hoarder. If the standard can be broken, the hoarder is likely to be still further profited. Hoarding of gold, unlike that of almost any other commodity, thus tends to justify itself indefinitely, and, given sufficient impetus, to proceed without restraint until the conditions which favor it are removed by the general abandonment of the standard and the refusal to sell gold further, at a fixed price, if at all.[4]

If no question arises as to the possibility of *future* as well as present convertibility, without devaluation, of a gold-standard currency, people will, of course, be content with a paper representative in *lieu* of the gold itself. The commodity value of any convertible paper currency must of course move *pari passu* with that of gold. If both are rising, commodity purchases will tend to be eschewed, and economic life, in consequence, will languish;

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withdrawable bids and offers on a flexible price basis. The value of any commodity so bought and sold is, to both the marginal buyer and the marginal seller, substantially identical with the price established. But, with a commodity which one of the parties is bound to buy or sell in unlimited quantities at a fixed price, the money value of the commodity to *all* buyers and sellers may, in given circumstances, be either greater or less than the price at which transactions are carried on.

[4] The phenomenon is essentially that of a "corner" and "corners" are, of course, not as rare as they might be. But "corners" in ordinary commodities are dangerous to the cornerer, since rising prices tend to educe unmanageable supplies. This is not so true of gold. A closer analogy with gold is a corner in a stock, definitely limited in amount, in which there is a large short interest. The price of such a stock, in the absence of intervention, might go to almost any height.

but confidence in the currency will nevertheless prevent any great strain on the issuing institution. But when people are not sure of future, as well as present, convertibility, the drive against gold currencies becomes acute. Bear speculators are then presented with that rare, and greatly desired phenomenon, a "sure thing." They cannot lose by converting any gold currency into gold since there is not the slightest chance of *advaluation* (the *raising* of the gold content) of the currency unit while there is a very good chance indeed of devaluation or other form of decline in its power to command gold. Sure things never lack enthusiastic takers. Speculators, moreover, *as the term is here used,* are a numerous and powerful class, including, at least, such *foreign* banks as are shrewdly administered.

This is why the position of all gold currencies was shaky so long as the bulk of the world's gold was not, as now, concentrated in a single country practically unique in its adherence to gold. Such concentration, however, precludes the maintenance of an international gold standard. We are, therefore, forced to the inference that the international gold standard, as we knew it in the past, was *inherently* unstable and that, if it were ever restored in the old form, it would almost certainly fall once more. It could not stand the high liquidity preference prevailing against most currencies as well as commodities, in disturbed conditions.

In the years 1933-36 the whole impulse of the passion for gold was concentrated on France and the three or four other, much smaller, countries which were then maintaining effective gold standards. The drive against the franc was so strong that, though the Bank of France was still in possession of an enormous gold reserve, it sought to prevent a drain of gold by borrowing. To forestall the impairment of its non-earning gold asset, in exchange for interest-bearing paper, it was thus forced to the unbusinesslike course of incurring an interest-bearing liability. This act was a danger signal, promptly recognized as such, and increased the eagerness of private banks and individuals to turn their French assets into gold while the opportunity was still open to them on favorable terms. A corresponding desire for gold led holders of foreign paper currencies to bid so high for the still convertible French franc (fall of other currencies in terms of francs) that the ordinary buyers of francs for the purchase of French goods withdrew to a large extent from the market. This increased the balance of claims against French gold and, as these claims were pressed, a steady and eventually catastrophic drain of gold from France ensued in spite of all efforts to stop it. The gold standard simply could not be maintained.

Those concurrent paper currencies which were in little danger of being greatly expanded, and whose gold exchange value was considerably below the purchasing power parity level, were fundamentally much stronger than the franc, and other gold currencies, even though, or perhaps because, they were temporarily depressed by the demand for gold. The paper currencies

could rise in gold value while the gold currencies, of course, could not. Such paper currencies were therefore, at this time, more attractive to bulls than the gold units. It is true that, even where there was little or no decline in internal purchasing power, a very sizable drop below the presumptive maximum exchange value of a recently defaulted former gold currency (its nominal gold value) was necessary to induce bull speculation in sufficient volume to balance the bear pressure based on the restricted potential rise and the unlimited potential fall in the gold exchange value of the currency. But by 1934 this drop had already occurred, in the full probable measure, in the case of sterling and the dollar. These currencies were, in consequence, more or less consistently buoyant as against the franc. They might be driven, but not kept, down.

When, however, the monetary authorities in charge of a paper currency adopt a rigid policy of preventing a rise, beyond a certain figure, in its gold price[5] (or, what is the same thing, in its exchange value against gold currencies) and, still more, when their action forecasts a progressive decline, the inherent strength which the currency might otherwise possess is lost. It may, temporarily, be buoyant but it is just as vulnerable as gold. By this policy the authorities forgo an advantage over the speculator of which they might otherwise make glorious use. The policy adopted gives notice to both bulls and bears that, with the currency at or near the current maximum in its gold price, it is dangerous to buy, and safe to sell it, against gold. This is probably a factor of some importance in explaining why in 1937-1939, when sterling was, for lengthy periods, kept stable against the dollar, it was consistently heavy in contrast with the buoyancy it had earlier shown against the gold franc.

It is, of course, always possible to control a *rise* in the gold, or gold exchange, price of a paper currency by issuing—in exchange for gold—all the paper currency which is called for at that price. There is no difficulty at all, therefore, in preventing the currency from rising above a predetermined maximum. If the bull movement is very strong, large gold stocks can be acquired in this way, as they were acquired in France from 1926 to 1930, and later in England.

But, without the sale of great stocks of gold or their equivalent in foreign exchange, and sometimes even with their complete sacrifice, it is not always possible to prevent a fall in the gold price of a paper currency. To establish a maximum gold price is, therefore, to load the dice in favor of the bear speculator whenever that price is approximated. The gold price of the paper monetary unit can then move only downward, and the currency is thus thrust into the same precarious position as is inevitable to the main-

[5] This seems to have been the English policy for two or three years prior to 1937, when large quantities of gold were acquired by the British. The acquisition of this gold of course kept down the exchange value of sterling.

tenance of a gold standard with limited reserves. If, at the maximum price, the bear speculators can exhaust the reserves, or the willingness of the authorities to use them, they are bound to win, just as they win when a gold currency can no longer be maintained and its gold price falls. Losses are graciously forestalled by the official policy. So long as the policy persists, short sales can always be covered at no advance in price so that a practically costless bear speculation can be carried on indefinitely—with the ever present possibility of a break in the bear's favor. The cumulative force of this bear pressure is amply demonstrated in the repeated failures to maintain the various levels (not unduly high) set for the exchange value of the French franc from 1936 to 1939, and, in the case of sterling, in its sharp declines against the dollar, in the spring of 1935 and the autumns of 1936, 1938, and 1939.

The bear speculator in futures in a paper currency under attack is, in effect, a present hoarder of whatever reserves the monetary authorities may be using to maintain the value of the currency. It hardly seems wise to put a premium on short selling, with a correlative discount on buying, and, in the presence of a large bear interest, to seek to maintain a fixed exchange value and thus reduce to zero the speculative buying of the currency or confine it to blind purchases of small amounts by lambs about to be shorn.

The case is still stronger against a policy of progressive planned reduction of the gold value of a monetary unit. The bear speculator has then only to sell the currency short, for gold, in the confident expectation of presently buying it back at a lower gold price. He does not, in this case, need even patience. It is then very likely to be impossible for the authorities to control the pace, or extent, of the movement.

To attempt to achieve anything like absolute stability of the exchange value of a paper against a gold currency is, in unquiet times therefore, almost certain to prove a tactical blunder.[6] This is even truer of an attempt to secure a trend in a downward direction. It is much better policy to seek a loose, but not permanent, stabilization within a not too narrow zone. If the authorities are provided with a sizable stock of gold or foreign exchange and are resolute, for the time being at least, in keeping the gold or foreign exchange value of their currency from moving beyond fairly wide limits about a predetermined but unannounced norm,[7] they will have the bulls by the horns and, in other than the usual sense, the bears by the tails. They will be able to give a twist to either whenever they so desire.

If the currency rises in value, in gold or some standard foreign exchange,

[6] Where the internal purchasing power of the monetary unit is high relative to the exchange value at which stabilization is to be attempted, as was the case of the French franc in 1926, the blunder may have no serious consequences.

[7] This norm should be subject to irregular and infrequent change with the object of preserving stable internal purchasing power whenever the foreign gold, or other, currencies involved prove unstable in this respect.

above the predetermined norm, the authorities can sell it steadily but not in such volume as *immediately* to check the movement. If, on the other hand, it falls, they can similarly buy. In so doing they would make money, on both sides of the market, at the expense of speculators of undue temerity; and, on the assumption that there is an effective forward market, they could keep exchange sufficiently stable for all business purposes. The choice of the norm must, of course, be reasonably appropriate to the existing, or some desired, domestic price level. If the price level is to be changed, or if it is changing in important countries abroad, the choice of new norms should be immediate and, so far as possible, definitive, or it will be the speculators who will have the upper hand. The British have shown at times, but by no means typically, a disposition to employ their Exchange Equalization Fund in the manner proposed.

The present concentration of the bulk of the world's gold in the United States, with the steady accretion to the share of the total stock of gold domiciled in this country, has thrust upon the managing authorities of important paper currencies, whenever they elect to keep exchange rates fixed, the same difficulties which the gold currencies formerly faced. The figurative Thetis, who perhaps baptized these paper currencies in the Styx, apparently repeated the mistake of missing the immersion of the heel. Now that the value of the dollar determines the value of gold, speculation against the paper currencies hinges on the dollar rather than on gold. Except on the assumption that we shall deliberately adopt the senseless, and pernicious, procedure of still further increasing the dollar price of gold, or of denying the right to export the metal, there is no chance of gold rising in dollar value. There is, however, a very good chance that gold will fall in dollar value. This would happen if we should even falter in our practice (not legally required) of buying gold freely at a fixed price. All shrewd speculators must therefore prefer dollars to gold, and they have in fact sent us gold in stupendous volume in exchange for dollar credits. The dollar exchange value of the paper currencies, particularly sterling, was kept fixed for lengthy periods by these large shipments of gold. The British authorities have, however, felt unable to sustain the rate indefinitely and, on several occasions, bear speculators have, in consequence, been given a field day.[8]

[8] That the bears have learned to expect a break in their favor is clearly brought out in an article (Federal Reserve Board *Weekly Review of Periodicals*, Sept. 26, 1939, p. 3) reproduced from the *London Financial News* of Sept. 6, 1939. The article asserts that, on the requirement of the British Government that holders of dollars must place them at the disposal of the British Treasury, "there were abundant offerings of dollars to the authorities since a large bull position [in dollars, that is, a bear position in sterling] was built up before the sterling rate was unpegged." . . .

Since the bears were compelled to deliver at the rate of only $4.06 to the £, they no doubt secured a good deal of "honey" in turning over dollars presumably acquired at

If, and as, the gold at the disposal of foreign monetary authorities is further greatly attenuated, the exchange value of the paper currencies against the dollar will tend to fall farther. This will increase the passion for dollars on the part of holders of other currencies. The material of present speculation—gold—is being steadily sunk in our vaults in Kentucky and, as the available free supply is thus diminished, the intensity of demand for gold, outside this country, as a means of getting dollars, is proportionately enhanced.

So long as the managers of the managed currency standards attempt to maintain a stable rate of exchange against dollars, which means a fixed price in their currencies for gold, they are thus quite as vulnerable as if they were on the former gold basis. The only solution of the problem would seem to be the adoption of the policy of reasonably flexible exchange rates with the deliberate intent of punishing noxious speculation.

The zone of fluctuation would have to be wide enough to inject in the minds of speculators a lively doubt of the intention of the managing authorities. It would sometimes be desirable to let the bears on any depreciating currency commit themselves heavily before the "control" stepped in to raise its value. The borders of the zone should therefore be not sharply defined and the zone itself should be somewhat wider than that which Mr. Keynes has espoused. Its rather indefinite limits would presumably be approached only at long intervals.

The weakness in the management of paper currencies up to the present time has been a reluctance on the part of the authorities, after a certain "equilibrium" has been achieved, to permit any substantial increase in the gold exchange value of the monetary unit they control. The constant bias is therefore toward the depreciation of such currencies against gold exchange. Except in the case of a steady appreciation in the real value of gold, this is not only undesirable on grounds of general policy but it greatly strengthens the position of the bears. A purely defensive battle against bear speculators is futile. It is not enough for the monetary authorities to attempt merely to sustain the exchange value of a currency against bear attacks. After having led the bears into a trap, by permitting the rate to fall under pressure, a strong counter-offensive should ordinarily be pursued until the exchange value of the currency has been driven somewhat above the level prevailing when the bear attacks began. If such a procedure were followed we could rather confidently expect an alleviation of the problem of short-term capital movements.

For purposes of symmetry it should here be repeated that, since a paper

about $4.70, and the volume of dollars they delivered is evidence of the difficulty of maintaining a substantially fixed rate of exchange such as had been in effect for several months. No doubt the bears felt unjustly treated in that they were not allowed to hold out for a still more luscious morsel.

currency can always, and without difficulty, be kept from rising in value, the control of possible bull speculation offers no problem. But bull speculation should not always be checked. In the inevitable vicissitudes of a (reasonably) free exchange the monetary authorities can get no help, in times of pressure, from a potentially favorable private psychology, issuing out of former bullish situations, if the effects of such bullishness on the rate of exchange have always been inhibited.

The gold standard is clearly not so sacrosanct as it once was but it still commands from Demos, and even more from Ploutos, a somewhat superstitious reverence. If, in deference to this opinion, the international gold standard is ever in any form resumed, it would seem that it also should be put on the basis of a substantial, and unannounced, spread between very partial analogues of the former gold points. It is probable that, even under the conditions prevailing before the outbreak of the present hostilities, no important country but the United States could have maintained a gold standard of the traditional type. Monetary authorities ought, in any event, to guard themselves against the type of speculator who serves no interest but his own.

It is worthy of note that in Belgium, a country which is alleged to be on the gold standard, the monetary authorities not long ago refused to issue the permits requisite for the import of gold until the exchange value of the belga had risen measurably beyond the gold-import point and the bear speculators had been duly punished by being forced to cover their commitments at a price considerably higher than they had had any reason to expect.[9] One primary feature of the traditional gold standard is rigid adherence to the letter of the contract under which it is established. Belgium, therefore, must be held to have abandoned the gold standard it was ostensibly maintaining in order to shake off the bear speculators which, under all but very quiet conditions, that standard tends to attract. The Belgian action was a tacit admission that freedom from bear speculation is more important than the standard itself and is also evidence that even a simulacrum of the old gold standard could not be maintained in Belgium unless the bears were occasionally squeezed and thus rendered a little less presumptuous.

The problems with which we have so far been dealing are largely problems of controlling the aftermath of controls. They would not be present if we had a group of pure gold standards with no surrogates for the metal in circulation. They have their domestic and their international aspects. The departure from a reasonable approximation to pure gold standards, and the introduction of controls, arose partly from inadvertence and partly from the inability to attain, or reluctance to permit, a thoroughgoing flexibility

[9] *Cf. Weekly Review of Periodicals*, Board of Governors of the Federal Reserve System, May 23, 1939, p. 7.

in our economy. On the justified assumption that the forces responsible for the situation are still effective, our present task is to secure an essential minimum of monetary flexibility in ways which will do the most good and the least harm.

So far as the domestic aspects of money are concerned, no respectable end is served by random or forced changes in the supply of money or by changes dictated merely by private, rather than the social, interest. Whether such changes occur as a result of hoarding or otherwise, they can be obviated by an irredeemable circulating medium with a 100 per cent reserve against bank deposit money. Such an irredeemable circulating medium might be provided by a pure commodity-asset currency but, in present circumstances, is more likely to be straight fiat money. Redeemable currency is always subject to breakdown and the supply cannot be effectively regulated. Such flexibility as it has is perverse. The case for an irredeemable currency on grounds of invulnerability is clear. Such a currency, whether of the asset or fiat type, would be inviolable at home.

The superiority of fiat over a commodity money lies in the ability of a central monetary authority to regulate the supply at will. This should be altered in whatever degree is necessary to offset hoarding in the widest sense of that term. The inferiority of fiat money lies in the possibility of abuse of the power of issue. All power is subject to similar abuse yet we cannot do without it on that, or any other, score. This, nevertheless, does not close the case against a commodity-asset currency provided it is pure, *i.e.*, free of anything to be "redeemed."[10]

On the international side, the great issue is fixed *versus* flexible exchange rates. It is clear that a fixed rate of exchange between any two freely vendible currencies cannot for any lengthy period be maintained unless, by accident or design, congruent monetary policies are pursued in the two countries concerned and their price levels are kept in substantially constant relationship with one another. In the absence of these conditions a relatively less desired convertible currency is certain to be successfully raided and the exchange rate broken.

A series of pure gold currencies, freely exportable, would, of course, keep national price levels in constant correspondence with one another. A currency of this type could never fall in exchange value against other gold currencies whether the latter were pure or not. But such a currency can, in effect, break down through exhaustion.

[10] The recognition of the need for an irredeemable currency explains the agreement of opinion between Professor Hayek and me on the desirability of 100 per cent reserves against bank deposits. (*Cf. Monetary Nationalism and International Stability*, F. A. von Hayek, Longmans Green, London, 1937, pp. 73 *et seq.*) On most other points we are poles apart. Professor Hayek leans toward a pure gold money while I favor a fiat currency. He is adamant for fixed exchange rates whereas they should, in my opinion, be flexible. Exchange of bank deposits for cash, under the 100 per cent reserve system, would, of course, not be redemption of any currency.

The nearest thing in modern times to a pure gold currency is perhaps the Cuban currency prior to the comparatively recent heavy coinage of silver pesos. For nearly three decades the Cubans used American paper currency as their money. This was, to them, an exact equivalent of a pure gold currency. At any time prior to 1933, they might, without any real alteration in their monetary system, have had gold, dollar for dollar, in *lieu* of the actually circulating American notes. At one time the reported circulation of these notes in Cuba was in excess of $400,000,000. This was approximately $100 per capita, a figure greatly above that prevailing in this country at the time. Yet in a very short period, and without having been supplanted by any other money, all but $25,000,000 of this sum disappeared in remittances to this country. From the point of view of internal monetary and price stability in Cuba the question may well be raised as to whether the fixed exchange rate between the more or less theoretical Cuban peso and the dollar did not ruinously facilitate the flight of currency from the island. It might have been well to have put a barrier against such flight similar to that which would be presented by a shift in exchange rates.

If it be granted that irredeemable money is desirable, such a drain of the currency as occurred in Cuba seems an effective argument against irredeemability through pure gold standards which, *inter se,* provide fixed exchange rates. Irredeemability should rather be established through fiat money (now all but universal), with abandonment of exchange rate stability.

The issue of fixed *versus* flexible exchange rates has three facets: the long term, the short term commercial, and the short term financial.

As already indicated, flexible rates in the long term are indispensable to the pursuit of anything but substantially identical monetary policies in the several countries concerned. If an international synthesis of monetary policies could now be achieved, the discussion might be confined to the general merits of fixed as against flexible rates. But, since the establishment of such a synthesis is, to say the least, dubious, and its maintenance, in the light of the situation developed in the preceding pages, still more unlikely, we must forgo the notion of permanently fixed rates as a practical probability. The only question worth discussing, then, is whether it is more desirable to maintain a provisional fixity of rates, with discontinuous alterations from time to time as the occasion demands, than to go in for continuous flexibility.

It seems unlikely that such unsettlement as would attend a policy of continuously flexible exchange rates would be as disturbing as that which is associated with the occasional shifts, of much greater magnitude, inevitable in the absence of a synthesis of national monetary policies. Flexible exchange rates would not necessarily be any more disquieting to commerce than the flexibility in commodity price relationships which we are accustomed to think essential to the proper conduct of the capitalistic system.

Even when there is no present deviation from constancy in the relationship between national price levels, the maintenance of merely provisionally stable exchange rates probably thrusts on the several national price structures a much greater readjustment to alterations in the relative international demand and supply of goods and money than is associated with a corresponding readjustment through an appropriate shift in rates of exchange.

Whether or not this is true, international short-term financial movements, quite unassociated with trade, now tend to be of such magnitude as, in many countries, to require thoroughgoing restrictions as an unsatisfactory alternative to fluctuating exchange rates.

A large part of such non-commercial, short-term, capital movements as are permitted is motivated by the knowledge (1) that a given currency is being supported in pursuit of a policy of stable exchange rates, (2) that any movement in the exchange value of that currency will be downward, (3) that it will, in any event, cost practically nothing to shift mobile assets to another currency even if, later, they are to be shifted back again, and (4) that, if the prospective alteration in exchange rates take place, such an operation will show a handsome profit. With substantially stable exchange rates it is therefore next to impossible to impose an effective damper on the speculative movement of short-term funds unless a control on the German model is instituted. If, however, the bears on a currency were presented with uncertainty rather than a sure thing, it seems probable that the pressure would be very much lightened and freedom in the exchange market could be maintained.

It is often asserted that the greatly increased volume of short-term capital movements in recent years, far from being reduced by fluctuating exchange rates, is a consequence of them. The movement of such funds was prominent, however, in the period of the resumed international gold standard, with fixed rates of exchange, from 1928-1931. The contention is therefore untenable. It is probable, nevertheless, that the volume of international short-term financial transactions would be greater under flexible exchange rates than, in fairly quiet times, under stable rates. But, though the volume would be greater, it would not be concentrated on the bear side of the market, leaving the official support isolated on the other side. With fixed exchange rates the pressure is cumulative until collapse occurs; but, with flexible rates, every point of decline in the exchange value of a currency would bring added support to it and even transfer operators from the bear to the bull side.

By some opponents of flexible exchange rates it will perhaps be alleged that while, as an alternative to more or less rigid control, flexible rates may be essential to the curbing of undesirable movements of short-term funds, they would nevertheless be so disturbing to legitimate international trade and finance as to be out of court. To this objection the reply might be given

that the choice is not between permanently fixed and fluctuating rates but between temporary stability, subject to the shock of sharp change, and a more or less even fluctuation. With flexible rates, regulatory action would, of course, still be desirable, but it would be on an entirely different principle from that hitherto unsuccessfully practised. Like the present action, however, such regulation requires stocks of gold or foreign exchange.

The forward market in exchange which would develop under truly flexible rates would, moreover, go far to eliminate business risk and at slight cost. The present forward market is crippled in that the impulse to use it at all fully arises only when the position of the currency concerned is precarious. Forward exchange operations then become a gamble on how soon the fall will occur and how great it will be when it comes. No one will offer insurance against something which is practically certain to occur, and merely uncertain as to time and amount, unless he is paid substantial premiums. But with truly fluctuating exchange rates, just as likely to move in one direction as the other, the total net cost of forward operations, to those interested only in insurance, might disappear. The gambling motive is so strong that the cost of operation of the forward market is likely to be fully borne by the gambling element when the chances of upward or downward movements in the currency concerned are even, rather than, as now, all against the maintenance of the current rate to say nothing of an advance.[11] The present high cost of forward transactions is, therefore, by no means indicative of the cost in a market where chances would be no greater one way than the other. The spread between spot and futures in such a market would, moreover, be much less than it frequently is under present conditions.

There would be occasions, of course, on a trap being set for bears, when the exchange value of the currency would for some time move predominantly downward. After some experience of the effects of the operation of the proposed policy had been gained, however, we might expect bull speculation and ordinary business buying to become active on any marked decline. This might prevent the baiting of the trap but the trap would not then be necessary. Over the long run, and presuming no such substantial change in relative national price levels as would, under any system, force an alteration of the exchange-rate status, it seems probable that freely flexible rates would give greater underlying stability than attends the attempt to maintain rigid rates, since the latter are, in fact, punctuated by sizable breaks.

The most puzzling problem of exchange-rate regulation is that of stopping panic flights from a currency without permitting such a fall in its exchange value as would be highly disruptive to the price structure of international goods and, by repercussion, even that of domestic goods. When bulls cannot be induced to venture in the market under any reason-

[11] Evidence of the validity of this statement is furnished by the fact that the public will pay to assume what is, at best, no more than an even chance in the stock market.

able stimulus, a downward movement of exchange may be so strong as to exhaust the reserves of the "control" when, after a tactical drop, the authorities attempt to reverse the direction of the movement. The only recourse would then be the introduction of rigid exchange control until the panic had subsided. Such control would, of course, be still more necessary if an effort were made to keep rates stable—unless confidence could thus be revived before a break occurred. To prevent the occurrence of panics, large reserves are in any event desirable; and, to secure such reserves, it might be necessary to keep the exchange value of the currency for some time below "equilibrium" level.

Under the system of freely flexible rates the monetary authorities would presumably enter the market only when the deviations from the current "par," or norm, had, in their view, become excessive. Since the potential profit on bull speculation would at times be large there would not, as there is now, be any stronger tendency toward private bear than bull operations. Private speculation, within the broadened and somewhat indefinite zone of free fluctuation, would then exert nothing but a beneficent influence, just as it did in quiet times under the international gold standard; and intervention by the authorities would, in consequence, be unnecessary.

The proposed system would, of course, not give anything approaching stability of purchasing power to the monetary unit in any country—without an occasional shift in the norm of exchange rates against gold currencies whenever the real value of gold tended to alter. To secure substantial stability of the value of money, a monetary unit representative of a varying weight of gold seems likely to be the most effective instrument.[12] If the price of gold is kept unchanged when, in the absence of arbitrary fixation, its price would alter, the task of currency management becomes very onerous. It is likely to involve, on the one hand, such a depletion of gold reserves as to lead to a breakdown of the standard, or, on the other, to such a cumulative plethora of reserves as to be prohibitively expensive. There seems to be no reason to add to the necessary difficulties of monetary management the quite gratuitous task of managing gold so as to keep its value, and its price, at any desired level. There would, by contrast, be no need for any attempt to manage the value of gold, even where it was an element in the monetary system, provided there was no reluctance toward changing its price.

Foreign exchange rates against gold currencies of the traditional type would, of course, change in rough proportion to the change in the weight of gold in any such monetary unit, or in the paper currency price of gold; and the zone of exchange fluctuations would move as a whole. But since no large change need be made at any one time, exchange rate norms, even after

[12] A monetary unit, that is, of the type made familiar by the early work of Irving Fisher in this field. In the absence of any right of gold to enter circulation, the same effect can be achieved by merely varying the official quotation on gold. So far as its real value is stable, sterling is such a currency.

the shift in the weight of gold in the unit or in the price of gold, would tend to settle somewhere within, but toward the margin of, the preëxisting zone. Speculative operations would merely anticipate the change and so reduce its magnitude. If, *e.g.*, a decrease in the amount of gold represented by the dollar, but not by sterling, were anticipated, forward speculators would no doubt sell dollars forward against pounds. If they carried this very far, however, they would so drive down the sterling value of the dollar, within the then current zone of fluctuation, that, after the anticipated change in the gold "content" of the dollar had been made and purchases of dollars to cover the forward contrasts were in order, the sterling price of dollars might well rise so fast that most speculators would be unable to regain as many dollars with their pounds as they had laid out in the purchase of the sterling. This could readily happen in spite of the fact that the "gold content" of the dollar, at the norm, had been diminished. The speculators, moreover, could not "contract out" of exchange rate fluctuations by moving into gold, since they should not, at any time, be able to obtain gold from the monetary authorities at the same price at which they could currently sell it to them. Speculation would thus be held within beneficent bounds.

There would, moreover, be no general tendency to disturb foreign-trade relations. Movements in gold price levels tend to occur more or less synchronously, and in the same direction, in all gold-standard countries. If the movement were upward, and the amount of gold in the compensated monetary unit were therefore increased, the price level in the country of the compensated unit would tend to remain stable while it was rising in other countries. The greater foreign exchange value of the compensated unit would then enable the country in question to obtain imports, selling at higher prices in foreign currencies, at stable prices in its own monetary unit; while its exports, stable in price in the home market, would, as a result of the shift in exchange rates, sell abroad at the higher prices which would correspond with the generally higher price level in the respective foreign currencies, which would then prevail.

It would be illusory to suppose, of course, that the price level in a country of compensated currency would respond immediately and proportionately to shifts in the gold content of the monetary unit. This notion, if ever widely held, has been exploded by the monetary experience of this country since 1933. With a given volume of trade, the price level can so respond only as a result of presumptively slow changes in the supply of monetary units, or in the rate of monetary turnover, or both. The speed of turnover, in short periods at any rate, is determined by psychological factors of an unpredictable sort. The type of currency suggested is therefore fitted to iron out the longer trend in prices rather than directly to affect cyclical fluctuations.

If, however, exchange rate norms were seldom altered until after an apparently definitive change in relative national price levels was actually in

progress, and, eventually, in strict proportion to the change, there would be little question of unfair competiton in international trade. It would be neither easier nor harder for any country to sell, or buy, in any other than was the case with the fixed exchange rates, and the more or less steady relationship between price levels, which marked the international gold standard. Exchange rate movements would, in fact, compensate the shift in relative national price *levels,* with the prices of individual commodities varying from the average as they always have.

Without making any such claims to precision in price adjustment as have sometimes been advanced for similar systems, this system would probably meet the "needs of trade," at a given price level, with exchange rates which would fluctuate, in any short period, within the limits of nothing more than a tolerably spacious zone. A given gold base would support a larger or smaller monetary and credit structure, according as the monetary unit contained less or more gold (gold was priced high or low). The currency would thus be given the protection which comes from a linkage with gold; but the price level would not be tied to the vagaries in the real value of that metal.

On the assumption that our reserves are gold, rather than dollars, the present embarrassment of riches in gold in this country, and the difficulty about excess reserves of the commercial banks, would be alleviated by a non-definitive downward revaluation of our gold stocks (more gold to the dollar or, what is the same thing, less dollars to the ounce of gold). This revaluation would not require the acknowledgment of any permanent accounting loss on the existing gold stock since we could always at a later date make the gold worth in dollars whatever we wanted it to be. Gold would, so to speak, be made a "stock without par value." Since there are practically no gold standards left in the foreign world, the revaluation of gold in dollars would not necessarily, or even probably, cause a material alteration in any important exchange rates; and, since the price of gold would be reduced, the present pernicious stimulus to gold mining, which is complicating an already awkward situation, would be removed.[13]

If gold like other commodities, instead of being offered at a fixed rate, should be suffered to rise in money price as the demand for it increased, and if, instead of being later salable at a fixed or increased rate according as the gold standard was or was not maintained, it should meet a falling market when dishoarding occurred, we should have done something to render a gold monetary system less vulnerable, and more useful, than it now is. Hoarding, which is not inherently sinful and has its validity, should be permitted if the social welfare can at the same time be preserved. Dishoarding, which is sometimes too readily welcomed, should, on the other

[13] The many facets of the general proposal cannot here be reviewed but it may be said that the difficulties are not nearly so great as they will appear to "conservatives."

hand, be deprived of its power to induce inflations. A variable price of gold would go far toward realizing these ends.

The advantages of the system proposed, however, are largely negative so far as hoarding is concerned and would, at best, make it innocuous. It is possible, nevertheless, that properly controlled hoarding and dishoarding of money might be made a positive factor in stabilizing economic activity. Gold is advocable as money only because of our gross ineptitude in pecuniary matters. Over and over again, in history, we have sought, by way of debt money, to improve on gold; but lack of capacity long to handle with any prudence an outright debt money has forced a reversion to a standard which is satisfactory only in default of a better. If, however, our lack of rectitude in pecuniary matters compels us to have an asset money, the clear logic of the situation is to set up a type of asset money which will promote a stable economic activity rather than one which thrusts our economy into a malaria of alternate chills and fevers with more or less persistent lassitude.

A more ideal, and perhaps a more feasible, money of this type than gold could ever be, has been recently proposed, with elaborate detail, by Mr. Benjamin Graham.[14] His proposal deserves the most serious consideration. He suggests, in effect, that 100 per cent monetary reserves be held in the form of a wide range of storable commodities, deliverable to and by the central bank, in composite units at a fixed price in money. Whenever the preference for liquidity in the community waxed, and prices tended to fall, arbitrageurs would be impelled to deliver the composite commodity units to the central bank in exchange for their fixed value in money. Production would thus be spontaneously maintained over a wide field of economic activity instead of being somewhat stimulated in the single narrow field of gold mining and retarded everywhere else. Whenever, on the other hand, the preference for liquidity in the community waned, and prices tended to rise, inflation would be forestalled by the redemption of money in the composite of commodities held as reserves by the banks. Over-investment in specific lines would, moreover, be avoided by the maintenance of general price stability.

This, one can assert with some confidence, is a theoretically desirable form of money and the only significant question is that of practicability. It is to be noted that Sweden, which was the first, if not the only, country to alter the price of gold to check a "gold inflation" and to acquire goods rather than gold, appears to be maintaining its leadership in emancipation from outworn pecuniary tradition by the use of commodities other than the precious metals as a monetary reserve. This may well be the first step in a revolution in monetary practice which could eventually render our pecuniary systems not only invulnerable but benign.

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[14] *Cf. Storage and Stability*, McGraw-Hill, New York, 1937.

MONOPOLY ELEMENTS IN RENT

The concept of land ownership as a monopoly is old, but it reappears in new and altered form in Professor Edward Chamberlin's theory that urban rent is a purely monopoly income, while agricultural rent is purely competitive. This theory, based on a confusion of the markets for *retail goods* and *agricultural products,* on the one hand, and the markets for *retail sites* and *farm lands,* on the other, seems definitely invalid. The markets for both retail sites and farm lands are imperfectly competitive; and the rent, in both cases, is an imperfectly competitive return.

Land ownership has often been referred to as a monopoly. Adam Smith's well known dictum that "the rent of land . . . is naturally a monopoly price" was followed, in some cases with modifications, by Malthus, Senior, J. S. Mill, Henry George, and by a few recent economists. This doctrine has not hitherto met general acceptance, but Professor Chamberlin has recently given it new prestige in his *Theory of Monopolistic Competition* in which he has formulated the novel theory, that while agricultural rent is a purely competitive return, urban rent is a "pure monopoly return."[1]

Professor Chamberlin finds many differences between agricultural land and urban land, and between agricultural rent and urban rent. He contends that a business site confers no advantages analogous to superior fertility in agricultural rent; that one site "is capable of *producing* as large a quantity of retailing services as another—there are no differences in fertility and no scarcity whatever of the best land in this respect"; that marginal and submarginal land anywhere—practically free land—is as "fertile for selling purposes" as the best shopping site in New York City. Urban rent, which is entirely location rent, is quite different even from location rent of farm land; for the location rent of farm land is due to differences in the cost of transportation to the market, but the urban land "carries its market with it." The market for agricultural products is purely competitive, allowance being made for differences in transportation costs; there are many buyers and sellers, as required for pure competition, and any seller can dispose of an indefinitely large amount of product at the prevailing price. "The retail market, on the other hand, contains monopoly elements, for the factor of convenience differentiates the product spatially." Since buyers do not move about with entire freedom, the owner of any particularly convenient site, according to Professor Chamberlin, has a monopoly of the use of the site, and receives a monopoly rent. His site affords a market which is, to a degree, distinct from the whole; and the amount of product he can dispose of at the prevailing price is not indefinitely large—as in pure competition.

It is not difficult to agree with much of Professor Chamberlin's argument. It is quite true that the advantages afforded by good business sites are different in some respects from those afforded by good land; that low-rent sites

[1] Third ed., pp. 112, 113, and Appendix D. Professor Chamberlin considers only the rent of agricultural land and of urban land devoted to retailing.

are not poorer than high-rent sites in the same sense that marginal agricultural land is poorer than good agricultural land; that the owner of a particularly convenient urban site is a monopolist with respect to his own site, to the extent that it is differentiated from all other sites. For reasons that will presently appear, we may concede that the rent of urban land *may* include a more important element of monopoly than that of agricultural land; but even this is doubtful.

Much of Professor Chamberlin's analysis seems, nevertheless, to be unsound, and his general conclusions entirely invalid. Throughout his analysis there is a confusion of the market for *products* of land and the market for the *land itself*. He is concerned with the differences between the farm *business* and the retail *business,* and with the differences between the pricing process for *farm products,* as contrasted with *retail goods.* As in his general theory of imperfect competition, he states that the market for farm products is purely competitive, while the market for retail goods is imperfectly competitive; and apparently from this he proceeds to the conclusion that the market is perfectly competitive for agricultural land, and imperfectly competitive or purely monopolistic for urban sites. (Just how he proceeds to the conclusion that urban rents represent "*pure* monopoly," the writer is unable to make out; and he is also unable to understand how there could be any pure monopoly.) In Professor Chamberlin's analysis little attention is given to the *land market,* in which rents are determined.

His conclusions, even as to the *products* markets, seem to the writer to be only partially valid. There is clearly an error in the first assumption here—in the assumption that the market for farm products is purely competitive. The markets for such staple commodities as wheat, cotton and corn approximate this fairly well, yet with important qualifications. If we think of the wheat market, for instance, as the place where the farmer sells his wheat, there is of course a strong taint of monopsony, or duopsony, or perhaps of oligopsony, in the market; for there is often only one elevator, and there are seldom more than two or three, within easy hauling distance. At one time the grain elevator was one of the mid-West farmer's most hated monopolies. This would not be the ordinary conception of a market, to be sure; but when we turn to the grain exchange we find again that the picture of perfect competition does not fit the facts. Standardization of wheat is not perfect, for there are some variations in quality within a given market grade. Millers do not buy wheat of a given grade indiscriminately, but, for at least a part of their needs, buy only after inspection and testing. Such other farm products as tobacco, fruit, livestock, poultry, eggs, milk, butter and cheese are by no means so standardized as to meet the requirements of a perfectly competitive market. There are, furthermore, definite elements of monopoly in the markets for agricultural products: on the demand side, for tobacco, livestock, flax, often for milk and some other products; and on

the supply side, for some kinds of fruits and nuts, and sometimes for milk. Even where there are many producers and many consumers, there are often monopolistic elements in the middleman's functions.[2]

In his discussion of the retail business, Professor Chamberlin comes to even more questionable conclusions. The statement that "urban rent arises from the products of lands of the *same* grade being sold in *different* markets" raises two questions: a minor one, to stress which would be cavilling—why "the products of land of the *same* grade?" It seems obvious that the products of lands of *all* grades are mixed beyond possibility of identification. A more important question arises from the assumption that different retailing sites are *different markets*. To the extent that they are really different markets, the retailer on each site would be a monopolist; yet his store could scarcely be called a "market," as economists use that term, any more than could the local elevator at which the farmer sells his grain.

Much of the discussion of "spatial monopoly" in recent economic literature stresses too much the monopoly element in retailing. It is true, as Professor Chamberlin states, that the advantages afforded by different sites "are dependent only in part on relative volume of business," that "other factors are the prices which can be charged, and the type of business which can best be conducted on the location." The demand curve for goods sold on any site is not a horizontal line, but slopes negatively. The retailer on such a site can mark his goods at various different prices, and sell different amounts of goods; and presumably, like any seller under imperfect competition, he will fix his prices at the point which will yield him maximum net revenue. Yet various considerations indicate that the slope of the demand curve is not very steep, and that competition and not monopoly should be stressed here.

In the first place, although different stores, and different sections of the shopping area, appeal to different classes of people, offering different qualities of goods and grades of service, quality of goods and service considered, prices cannot vary much. Logic would suggest that they might be higher on the high-rent sites, where the greater crowds are, and where therefore the demand curve should have the steepest slope; yet there is certainly no evidence that prices are higher on these sites. Operators here evidently think of their advantages mainly or entirely in terms of volume rather than price. Anyone who observes shoppers flitting from one store to another will get the impression that prices charged on different sites are given rather careful scrutiny. This scrutiny is likely to be effective with respect to the many branded and perfectly standardized goods sold at retail.

A second consideration indicating that the slope of the demand curve

[2] On the monopolistic elements in agricultural markets the writer has used a study on *Monopsony and Monopsonistic Markets*, by Mr. Ross Robertson, of the department of economics at Kansas.

facing the operator on a high rent site does not slope much, and that competition should be stressed rather than monopoly, appears when we analyze the crowds of shoppers who are responsible for high rents. Professor Chamberlin, like many other writers on this subject, seems to assume that these crowds just *happen to be* in the high-rent shopping districts. To some extent this is true. To some extent, the large crowds are there because of immobility, or because they are "impeded" in their movements. The proximity of hotels, the confluence of street-car lines, perhaps many other factors, may mean that there are considerable numbers of buyers here, although these in turn may be here because there are good stores in the neighborhood. That the location of the shopping district of a city is to some extent determined by the distribution of the population through the city is indicated by the fact that shifts in the distribution of population usually bring shifts in the retailing districts. To some extent, the buyers do *happen to be* there, and the operator on a site faces a negatively sloping demand for the products sold there which will enable him to exploit them through higher prices than those generally prevailing on inferior sites. He may take advantage of the fact that they are "impeded" in their movements.

But to some extent buyers *come* there, *overcome* their "impediments" in order to be there, presumably because they find there advantages in the price of goods—or in the quality, or service, or selection available, which are dimensions of the price; and to that extent it is clear that the operators on expensive sites face a demand curve which, within the limits set by the rationality of buyers, is horizontal. They induce people to *come* by offering prices at least as low as those of competing sellers on less expensive sites, and their advantage over the sellers on poorer sites—the advantage for which they pay high rents—is measured largely, if not entirely, in terms of volume of business. The division of the retailing area of a city into different markets, while interesting in its theoretical aspects, offers a distorted and unreal picture of the retail business.

The statement that "there is no extensive margin in urban site rent" is consistent with Professor Chamberlin's theory that urban sites yielding different rents are really different markets. He argues that the costs of producing on low-rent sites are not higher—as they would be on marginal agricultural land—but rather that "the market they afford is smaller." Here there is apparent unwillingness to recognize urban uses as proper uses of land. Urban land "produces" only in the sense of affording "buyer contacts"; and the low-rent sites afford fewer buyer contacts than the high-rent sites—just as marginal agricultural land produces smaller crops in proportion to the amount of labor and capital employed. Just as a given amount of labor and capital will yield more produce on good agricultural land than on marginal land, so will a given amount of labor and capital yield more mar-

keting services on "good" urban land than on "poor" land. Just as increased demand for farm products leads to an outward shift of the extensive margin and more intensive use of the superior land, so does an increased demand for retailing services lead to a shift at both points. Marginal agricultural land is land that will produce barely enough products to pay cost of production; and surely there is logic in saying that marginal urban sites are sites which yield barely enough business to pay costs, including no rent. Or, if we must be meticulous, we may say that marginal land, in both cases, must pay a small rent, to turn it from the next lowest use.

Turning now to the *land market* and the rent of agricultural and urban land, we find a similarly inaccurate picture. There is no necessary connection between the products market and the land market, as far as monopoly is concerned, in either agricultural or urban lands. Monopolistic or monopsonistic elements in the market for a farm product may not affect the land market at all. If the tobacco manufacturing industry were highly competitive, the market for tobacco land would be no more competitive than it now is. Coöperative monopolies in the marketing of some kinds of fruits do not generally affect the land markets in any way. The market for farm products, on the other hand, might conceivably be purely competitive, and the land market highly monopolistic. This would be true, for instance, if a single land owner owned all the corn land, and rented it to a hundred thousand farmers. It is possible to conceive of a situation, similarly, where a single monopolist owner might own all the land in a city, yet the retail business would be as competitive as it is now. In such cities as Gary and Pullman, such a situation exists. Any city which socialized its land would be a monopolist owner of business sites; but such socialization would not affect rents or the retail business in any way, unless the city held some land out of use. Much of Professor Chamberlin's discussion of the markets for farm products and retail goods seems irrelevant to the problem of rent.

It is true that a city is a peculiar institution, in its relation to land. From one point of view, it appears that most of the people are there because the others are there, for the purpose of transacting business of various kinds; yet there is usually a fundamental geographic basis for the location of cities, and for the "market productivity" of urban sites, a basis analogous to the fertility of good agricultural land. The unequalled harbor of New York City, the river junctions at Kansas City and St. Louis, the lake site of Chicago, are such geographic bases, and the land near such strategic geographic points is highly productive of marketing facilities—of "buyer contacts"—somewhat as good agricultural land is productive of crops. Professor Chamberlin states that "urban land carries its market with it," but perhaps it would be more accurate to say that it *is* a market, as far as it is devoted to retailing. This calls for congestion, and at points of maximum congestion,

for very high rent; while there is never a scarcity of land beyond the fringe of urban use.

Much of Professor Chamberlin's analysis of urban rent seems confused:

If entrance to every portion of a retail field were unimpeded, there would be no differences in the rents paid throughout. The impediment of land scarcity where customers are most numerous and opportunities for profit therefore greatest gives larger returns at some locations than at others—returns which cannot be reduced by other sellers moving in to share them.[3]

The idea seems to be that since retailers are "impeded" in their efforts to engage in business on the scarce, high-rent sites, those who have the use of the sites make monopoly profits, which competition forces them to turn over to the land owners, as "monopoly returns." Elsewhere Professor Chamberlin notes that the buyers are also "impeded," and with the same results:

The movements of buyers being impeded, the "product" of each site contains an element of convenience to a certain group, and the seller locating on the site has a monopoly of its product, the full value of which he is obliged by the competition of others for its use to pay into the hands of the landlord. If buyers moved freely over the entire area, as they would if the market were a purely competitive one, the differences in urban rent, and in land values would entirely disappear.[4]

In other words, sellers and buyers—not of urban lands but of the products sold on urban lands—do not move about with perfect freedom and therefore the entire retail area of the city is not a single competitive market, but a number of separate monopolistic markets. As an analysis of the market for *goods,* this seems sound, although exaggerated; but the conclusions as to rent do not follow. Suppose sellers had free access to the high-rent land, and as many as wished to could use such sites, rent would be equalized only in the sense that it would disappear, just as agricultural rent would disappear if an indefinitely large number of farmers could produce an indefinitely large amount of farm produce on the best farm in Iowa. Such a situation would simply mean that the law of diminishing returns was no longer in operation, and of course rent would no longer be paid. What would happen if buyers—of goods—moved freely over the entire retail area is difficult to decide definitely, but it seems likely that rents would fall greatly; yet some rent would still be paid, and slight rent differences would persist. Complete mobility in buyers would *tend to* eliminate rents, for if buyers could move freely over the entire retail area they could presumably move farther, and cause the retail area to expand to a point where rents would *nearly* vanish. Retailers on no-rent sites would be able to get as much business as those paying rents, and, with consequently lower costs, could pull business to the margin, which would shift outward until rents approached zero. Some rent, and differences in rent, would remain, however,

[3] *Theory of Monopolistic Competition,* 3rd ed., p. 112.
[4] *Ibid.,* p. 215.

because of the immobility of *goods*. It would cost something to haul goods from terminals to the stores, and since this cost would be slightly greater for longer distances, the sites near the sources of supply would command rents equal to the differences in the cost of hauling. If rents are to be reduced to equality, or eliminated, there must be perfect mobility of both people and goods; but, as a matter of fact, if there were such mobility in both, there would remain only two reasons for the existence of cities: some people might prefer to live gregariously, and many would want access to city utilities.

All this, however, seems to be little more than begging the question. Urban rents are entirely, or almost entirely, location rents; and location rents are based largely on immobility of people or goods. Even the location rent of farms is based on the immobility of crops—the cost of transportation—or on the immobility of people, and would disappear if there were perfect mobility of both.

In all this discussion of the immobility of buyers and sellers, there is no mention of the immobility of *land,* which is far more important in the problem of rent. If the low-rent *land* could be moved to the high-rent locations, and could be stacked up there advantageously—as capital is—then indeed rents would be equalized, or eliminated; but land cannot be handled so.

Professor Chamberlin insists that there is no extensive margin in urban site rent:

> This concept has to do with a situation where the product of lands of *different* grades is sold in the *same* market, whereas urban rent arises from the products of lands of the *same* grade being sold in *different* markets. Low-rent sites are not poorer sites in the same sense that marginal land is poorer than the best agricultural land. The costs of producing on them are not higher; rather, the market they afford is smaller. Two sites have different rents to the degree that they are in different markets, and to exactly this same degree the concept of an extensive margin is meaningless as applied to them.

It is quite true that the extensive margin in urban site rent is a different sort of concept than the extensive agricultural margin; that low-rent sites "are not poorer sites in the same sense that marginal land is poorer than the best agricultural land"; but what of it? We might as logically reverse this, and say that "marginal agricultural land is not poorer than good land in the same sense that low-rent urban sites are poorer than high-rent sites." In the city, land is used for a different purpose—for the transaction of business, instead of crop production. It "produces" by providing access to the city crowds, by providing buyer contacts, rather than by growing corn or wheat; it affords "standing room" rather than fertility: but its services are quite as essential as the services of farm land. Indeed it is in its urban uses that we see most clearly the fundamental attribute of land, which, as Marshall points out, is "extension." In its extension, land is most definitely

a peculiar factor, most definitely a gift of nature, unalterable by man. Urban rent is easier to separate from other forms of income than agricultural rent, and for many purposes serves better as an example of economic rent.[5]

The truth appears to be that, with respect to monopolistic elements, there is no clear distinction between agricultural and urban rents. The land itself, in its physical aspects, is generally the same in both uses. The land on Manhattan Island could be used for agricultural purposes, if that were the most profitable use; and any farm land could be used for retailing, if it were taken into a city. There are of course other uses to which any land could be put if conditions warranted: urban residence, manufacturing, wholesaling, forestry, or recreation. No matter what the use, the rent (or price) of the land may be explained on the common principle of supply and demand—not for the products or services of the land, but for the land itself.

Since Professor Chamberlin is concerned mainly with the goods market, rather than the land market, he does not take pains to indicate clearly what is his conception of rent—whether he thinks of it as a differential surplus, of products or of buyer contacts, or as a money payment; but apparently he believes that even for urban land, the money payment equals the economic rent, and that the entrepreneurs pay the land owners the amount of the economic rent. At any rate he states:

> Competition among entrepreneurs to secure these monopoly gains is the force which puts them into the hands of the landlords. . . . The differential remaining (above profits) which is due to the superiority of the profit-making opportunities afforded by one site as compared to another, is rent, and is put into the hands of the landlords by the competition of entrepreneurs for the best opportunities.

There is no hint here of any monopolistic interference in the *land* market, no hint that it is not a perfectly competitive market. In fact, if the owner of an urban site can get, and must accept, for the use of his site a sum just equal to its productivity, in what respect is his market situation different from that of a farmer selling wheat? He has no more control over his price than has the farmer.

This point may be elaborated a little. The demand for retailing sites is of course a derived demand, derived from the demand for the advantages to be gained from the use of the land, advantages in the *number* and *quality* of consumer contacts—quality referring to the possibility of selling at high prices. Apparently the entrepreneur lessee, as Professor Chamberlin concedes, must pay the land owner just what those advantages are worth. If so, have we not an approximation of a perfectly standardized commodity, and a *purely* competitive market? In renting a site, the lessee is buying consumer

[5] This classic discussion of the differences between agricultural and urban rents is to be found in Von Wieser's "Die Theorie der Städtischen Grundrente," published in 1909, as an introduction to Mildschuh's *Mietzinse und Bodenwerte in Prague,* and reprinted in 1929 in Von Wieser's *Gesammelte Abhandlungen.* The writer ventures no elaboration of Von Wieser's views, but wishes merely to offer an argument against the notion that urban rents represent pure monopoly and agricultural rents pure competition.

contacts, and paying for them at a certain rate, much as if he were buying unstandardized gasoline and paying for it according to its propulsive power. If there are many sites available, although completely heterogeneous, and many bidders for sites, have we not the essentials of perfect competition? When we buy homogeneous gasoline at a certain price per gallon, we have the standardization essential to perfect competition; and if we buy heterogeneous gasoline at a certain price per unit of power in it, is that not essentially the same thing? The bidder in the retail land market may have a sentimental preference for a certain site; he may want to be in a certain general neighborhood for his particular kind of business; he may want a "grade" of site proportioned to his "grade" of abilities: but, aside from such considerations, it should make little difference to him which site he gets, since he must pay in proportion to the number and quality of customer contacts that go with it. Any site, provided that it fits the specifications mentioned, is about as good as any other; any site, within the limits suggested, is an almost perfect substitute for any other. From this point of view, since there are many buyers and a considerable number of sites, the retail land market would appear to approximate perfect competition.

The urban land market being thus, in effect, almost purely competitive, how does urban rent become a pure monopoly return? Apparently from the fact that the retailing business conducted on the site is imperfectly competitive: "The amount of product each seller can dispose of is not indefinitely large at the prevailing price. . . . Spatial differentiation results in demand curves for the goods of individual sellers which have a negative slope instead of being perfectly horizontal." The monopoly elements in the retailing business reflect back on the land and make the rent monopolistic; although it was the "spatial differentiation"—due to land—which made the retailing business monopolistic in the first place. There is a strong suggestion of circular reasoning here, and much of the reasoning can hardly be reconciled with the assumption that the land owners receive money incomes which measure economic rent accurately.

Defining rent as the money payment made for the use of the land, in order to square it with the general price analysis, let us consider further Professor Chamberlin's distinction between agricultural and urban rent. It is clear that agricultural rent is not a purely competitive return as he would have it, and urban rent is not a purely monopolistic return; but, on the contrary, both are examples of imperfectly competitive price. While the "buyers and sellers"—lessees and lessors—of agricultural land are numerous enough in the aggregate to make a competitive market, agricultural land is by no means homogeneous, but varies greatly as to climate, fertility, location and suitability for producing different crops. The agricultural area of the country, furthermore, is divided into many local areas which to some extent represent distinct and separate markets *for the renting of the land,* just as, according to Professor Chamberlin, the land area of a city does. In these

local areas the number of renters and farms to rent may not be very large, and rents may not represent anything even approximating competitive price. Still other factors prevent any very precise adjustment of agricultural rents: the heterogeneity in the dispositions of land owners, who differ considerably in the zeal with which they pursue their own financial interests; and a similar heterogeneity in the dispositions of tenants, with respect, not only to their ability as farmers but also their reliability in paying the rent. Other factors of similar significence are the fact that rent is often paid in kind, rather than in money, and the fact that a farm is not only a productive agent but a home as well, and therefore not subject entirely to business calculations. For all these reasons, farm rent does not conform to the law of one price, but, even for land of similar fertility and location, may vary.

The number of retail sites is of course smaller than the number of farms, and the sites are more heterogeneous with respect to their productive value—varying from almost nothing to the fantastic values on Wall Street—and perhaps also with respect to their uses; yet the number of sites suitable to most uses is so large that no owner could affect the rent much by withholding his land from use, and the number of demanders is so large that no one of them has much influence on the rent. The appraisal of these sites is fairly precise, probably more precise than the appraisal of farms. Their rents are determined in a market where the buyers and sellers are doubtless shrewder than farmers, and where purely business considerations operate, for business sites are not used as homes. On the whole, it is not certain that the market for urban sites is more monopolistic than that for farm lands.

There is a sense in which, indeed, the owner of a business site is a monopolist, and his rent pure monopoly; but it is not the sense in which urban rents should be considered. The owner of the site is a monopolist in his ownership and control of his site, if we consider only this one site. But the renting of a single urban site scarcely suggests a market, in a true sense. Where there are a number of bidders for the site, the transaction resembles an auction, with only one thing to sell. To picture a true market we should have to consider more than a single sale as being made, bringing in competing sites; and when we do so we see that the site has its substitutes, like any other commodity sold in an imperfectly competitive market, and that the price or rent represents an imperfectly competitive return.

Yet our conclusion as to the monopolistic character of urban rent will depend on our conception of the fundamental characteristics of monopoly.[6] If we think of monopoly as control over supply, the urban land owner is a monopolist, to the extent that his site differs from other sites; but so then is almost every owner of a product of nature, for nature emphasizes heterogeneity. Man is the standardizer. If we adopt this concept of monopoly, every farm owner is a monopolist, for every farm differs from every other

[6] See C. J. Foreman, "Theories and Tests of Monopoly Control," *Am. Econ. Rev.*, Sept., 1919, pp. 482-501.

in some respects; every owner of a residence site, or a factory site or mine, is a monopolist; every business-man of unusual abilities, every unusually able actor, actress, musician, singer, entertainer, doctor, lawyer, painter, writer, journalist and teacher; every artisan, mechanic, or taxi driver of exceptional ability or integrity. Every one of these has qualities slightly different from those of others of his class, and to that extent is a monopolist. But we may say, further, that every man, woman, or child, regardless of abilities, differs from every other, and is therefore also a monopolist. We may go even further. As any horse trader knows, every horse is unlike every other, in physical resources or in disposition, and cattle are far from homogeneous. The owners of such animals are presumably monopolists. The category extends even to many man-made goods. The writer's 1928 Franklin car is now definitely unlike any other car on the roads, and much of his hand-made furniture is quite unique; so he is a monopolist too—on several scores.[7]

Such a concept of monopoly has no great social significance, and does not suggest the anti-social character of monopoly. We may well regret that there are not a thousand Marian Andersons, a million Edward Filenes, and an unlimited supply of the best agricultural land and the most favorably located urban sites; but nature and not these "monopolists" is responsible for the limitation. A monopoly suit in such cases would have to be directed against nature, and not against men. We may favor heavy taxation of the incomes of the owners of such resources; but we should do so because such resources are largely unearned gifts of nature, rather than because they yield monopoly incomes.

If, on the other hand, we assume that the fundamental characteristic—or shall we say effect?—of monopoly is a restriction of production and an increase in price to the consumer, a characteristic constantly emphasized in Professor Chamberlin's writing, then urban rent has few of the earmarks of monopoly. The owner faces no negatively sloping demand curve for his land; he cannot consider withholding part of his site from the market, in order to lease the rest at a higher figure; he cannot restrict the use of his site, but, on the contrary, the higher his rent, the more stories will be built on it—the more intensively it will be used—and the more services it will render; his rent is not made by reducing services and raising prices to the consuming public. He must usually offer his land in competition with a considerable number of other owners of sites of about equal productive value; he must take as rent what he can get, as fixed by demand, by the supply of competing sites, and to some extent, perhaps, by higgling and bargaining. If his site is strategically located, it is even well that it should command a high rent, for that tends to insure its use by an able entrepreneur. It is unfortunate that such sites are not owned by the public, but since they are not, some one must own them, and in doing so they do not raise many of the problems directly connected with monopoly.

[7] See *The Theory of Monopolistic Competition,* 3rd ed., p. 112.

Somewhat the same reasoning applies to the other incomes which Professor Chamberlin classifies as monopoly returns—the incomes of men and women of unusual reputation, skill or ability. The able business-man commands a high income, which is in a sense a monopoly income, yet he does not, like the ordinary noxious variety of monopolist, characteristically skimp in the use of his monopoly abilities, but on the contrary is likely to work hard, to use his talents lavishly. The great singer, offering his services in installments at each concert, does indeed face a negatively sloping demand curve, and may choose to sing less—perhaps only in the larger cities—at higher admission charges; yet on the other hand he is likely to find that the oftener he sings the wider his reputation spreads, and the higher is his total income, as well as his income for each performance, because he is shifting upward the demand curve for his services. The great surgeon is generally a very busy man. His income is monopolistic, in a sense, but he does not generally skimp in his use of his talents. All this seems to indicate that the ordinary evil of monopoly—restriction of supply—is not found here. It is unfortunate that high talents are not more plentiful, but here are the forces that tend to make them as plentiful as natural and environmental limitations—not monopoly limitations—will permit them to be. There are no barriers but those established by nature and environment to admission to the classes receiving these incomes. It is even fortunate that great talents should command high incomes, not only because high incomes encourage the development and cultivation of such talents, as far as possible, but because, as in the case of high-rent urban cities, they tend to insure the most advantageous use of scarce talents.

The illusion of rent as a "monopoly gain" appears most conspicuously in a growing city, where rents are rising and the general land market is one of few sellers and many buyers. In a city of declining population, this situation is reversed, and the land owners rent their land on a declining market, with heavy competition on the supply side.

Even if a considerable number of owners of business sites were to conspire to hold out of use a part of their land—as monopolists in general might do—it is not certain that they could raise their total rent, or even the rent on the land still employed. When all the land is offered, the land owners get a surplus over the costs represented by wages, interest and the entrepreneurs' profits. This surplus, which is ordinarily called rent, Professor Chamberlin calls "monopoly gains." If the land owners held part of the sites out of use, and demanded higher rent for the sites still in use, where would the increased rent come from? Not mainly from the profits of the entrepreneurs, if we assume that their profits are generally what their abilities would command anywhere. Before they would take much less, they would move, in the long run, either to other sites in the city, or to other cities. From an increase in the prices of goods sold on the sites still in use? No; these prices cannot rise perceptibly above the prices of goods sold on

the marginal sites. From an increase in the amount of business done on the sites still used? Possibly; but why might not the business section of the city expand to low-rent and no-rent land, until it occupied as large an area as ever, and the rent on the sites still used declined to its former level? It is difficult to see how these urban rent monopolists could afford to hold land out of use, even if they could act in concert. We have monopolistic combinations of every kind, but the writer has never read or heard of this kind.

That the land owners "love to reap where they never sowed," and are often able to appropriate income which is earned by others, is indeed as true today as it was in Adam Smith's time; but even that does not make them absolute monopolists. Professor Paul Nystrom has shown that rent increases relatively to profits on passing from smaller to larger cities, and on passing from poorer to better locations in a given city; and from this he concluded that the land owners absorb a part of the profits of the superior entrepreneurs.[8] The facts seem well established, but it is not theoretically demonstrable that the land owners are taking profits from the entrepreneurs, or that if they do, they do it as monopolists. There is no way of measuring the relative abilities of entrepreneurs, except by the amount of their earnings; and it is impossible to say how much profits they *should* earn on the high-rent sites, except by reference to other entrepreneurs operating on similar sites. Perhaps the number of able entrepreneurs is greater than is commonly supposed, and those using the best sites are not much abler than many others doing business on inferior sites. If this should be true, rent might absorb a larger proportion of the total income, without taking anything from profits. Or, it is possible that there are general economies in large-scale retailing which raise the rent of favorably located land out of proportion to its relative capacity to provide buyer contacts, and the land owners will be in a position to get the gains arising from this, gains which will smack of monopoly. Even if the high returns accruing to the valuable sites included some profits wrested from entrepreneurs, they would not be pure monopoly returns; for there are a number of sites available to each entrepreneur, as there are a number of entrepreneurs bidding for each site.

It appears, in conclusion, that Professor Chamberlin has confused the goods market and the land market; that he has given too little attention specifically to the land market in which rent is determined; that he has exaggerated the differences between agricultural rent and urban rent, and has failed to appreciate the analogies between these two incomes; and that, finally, as a result of all this, he has come to conclusions that are not valid. Agricultural rent is not a purely competitive return, and urban rent is not purely monopolistic; but, on the contrary, both are determined in an imperfectly competitive market.

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[8] *Economics of Retailing,* 1st ed., ch. viii.

INCIDENCE OF DEATH DUTIES

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Discussions of the incidence of death duties in economic literature have been, on the whole, scattered and fragmentary. The *Report* of the Committee on National Debt and Taxation (1927), the *Economics of Taxation* (1924) by Harry Gunnison Brown, and *First Principles of Public Finance* (1936) translation, by de Viti de Marco, are among the noteworthy exceptions. American writers in public finance generally have emphasized the descriptive aspects of particular death duties.

No less than four different conclusions of death duty incidence may be distinguished. These vary from the view that death duties are without burden, provided that substantially the whole of the estate is taken by such taxation, to conclusions that the incidence of death taxes is on the predecessor, the successor, or jointly, and in indeterminate proportions upon both the predecessor and the successor.

The view of incidence which it is believed may be most strongly supported is that the burden of death duties, including taxes directed to the estate as a whole as well as the distributive shares, is upon the predecessors. Incidence from this point of view is interpreted with reference to the immediate burden of such taxation, and is distinguished from the subsequent economic and other effects which result therefrom.

Although of ancient origin[1] and of major fiscal importance in the modern economy, there has been rather limited consideration, on the whole, of the problems of death-duty incidence and economic effects.[2] An important exception is found, however, in the investigation of the Committee on National Debt and Taxation, which directed no small part of its attention toward these aspects of the British estate, legacy, and succession taxes.[3] Customary discussions, particularly in American fiscal literature, have established emphasis on the descriptive features of operative estate and inheritance taxes. While the usefulness of this approach is not to be minimized, it is contended that the importance of death duty incidence, with its economic repercussions, justifies more than the casual treatment, apparently, so far accorded.

In the discussion of the incidence of death duties it will be assumed that taxes imposed on or measured by the value of an estate subsequent

[1] See Max West, *The Inheritance Tax* (New York, Columbia Univ. Press, 1908), 2nd ed., ch. 1; M. H. Hunter, "The Inheritance Tax," *Annals of Am. Acad. of Pol. and Soc. Sci.*, vol. xcv, May, 1921, pp. 165-6; E. R. A. Seligman, *Essays in Taxation* (New York, Macmillan, 1931), 10th ed. rev., ch. 5.

[2] Sir Josiah Stamp, in commenting upon contemporary discussions of death duties, states that "scientific economic inquiry into the subject of inheritance from the point of view of its purely economic effects has thus been very scanty amongst the classical economists. . . . The economic aspect of the subject suffers from the fact that it has nearly always been developed in an environment of political thought rather than scientific analysis—of a programme of social change to be formulated or supported." "Inheritance as an Economic Factor," *Econ. Jour.* vol. 36, Sept., 1926, pp. 347-8. See Hugh Dalton, *Some Aspects of the Inequality of Incomes in Modern Communities* (New York, Dutton, 1920), p. 283.

[3] See *Report* and *Minutes of Evidence* (vols. 1 and 2), Committee on National Debt and Taxation, 1927 (London, H. M. Stationery Office).

to the death of the owner, either on the estate as a whole or on parts of the estate, establish a common incidence. Differences in estate, inheritance, legacy, or succession taxes as to legal nomenclature, description, impact, taxpayer responsibility, rate graduation (as to size of estate and successor relationship), collection procedure, and the like, while of major importance in tax administration, are factors which do not exercise any controlling influence in burden situs. In other words, formalized division in tax base as between taxes imposed on the estate as a whole and the distributive shares, as well as the precise moment and point of legal impact, is interpreted as more of form than of substance and without real significance as to incidence.

The reasons which may be advanced in support of the above assumption are, first, the same *corpus* or body of wealth is the tax object, regardless of whether the tax is directed toward the whole or toward the parts. Second, the distinction between the distributive share and the estate as a whole, in the application of a tax, appears fundamentally to be a rationalized procedure of variance of the amount of a death duty in accordance with current social concepts of justice as found in the legitimacy of the expectation and claim of the successor to an inheritance.[4] Another factor in imposing a tax on the distributive shares, which is of lesser importance perhaps, is the administrative practicality of offsetting and correcting inequalities of wealth by rate graduation according to the size of the share rather than the estate as a whole. In the taxation of the latter (estate as a whole) the number of beneficiaries and size of individual bequests are disregarded. This suggests a substantial element of non-fiscal taxation in the inheritance tax as contrasted with the predominantly fiscal character of the estate tax. Differentiation of inheritance from estate taxation, therefore, appears to find explanation basically in certain socio-political purposes which may better be served by employment of a death duty directing attention to distributives shares of estates rather than to the entire *corpus* of the estate. This differentiation, of superficial importance, apparently, from an economic point of view, does not seem to impute any basic difference in incidence as between the two forms of death duties. Third, inheritance and estate taxes produce identical economic results from the standpoint of the inheritor—namely, reduction of the total amount which will be received and available to the use of the successor.

In discussions of the incidence of death duties in economic literature, not less than four sharply contrasting views may be distinguished. The arguments and reasoning which have been advanced in support of these

[4] Recognition of the legitimacy of the successor's claim to an estate finds expression in rate graduation in inheritance taxes in some correspondence with the remoteness of the blood relationship of successor to decedent. The three classes of heirs commonly distinguished are lineals, collaterals, and strangers to the blood.

several conclusions relating to burden situs differ decidedly in character. Perhaps death duty incidence is not as clear or as simple as has been argued on occasion.[5]

One view of the burden of death duties, a view which has not received noticeable contemporary support, is that taxes on inheritances, when equal to the whole (inheritance), do not constitute either a burden or a tax. This conclusion, expressed in 1795 by Jeremy Bentham, was phrased in the form of a question: *"What is that mode of supply, of which the twentieth part is a tax, and that a heavy one, while the whole would be no tax, and would not be felt by anybody?"*[6] If this view were sound we should have a method, in the words of Professor Glenn Hoover, "of getting money from the community without anyone's feeling the burden" and "if all the expenses of government could be provided for in this burdenless way, it might seem that the taxpayers' paradise was in sight."[7] Bentham reasoned that for taxes on inheritance to involve a burden there must be expectation of benefit through the legal right to succeed to estates, that through expectation only can there be disappointment and hence hardship, and that hardship in the form of disappointed expectation constitutes the measure of the burden attaching to the taxation of inheritances. Bentham believed that should the state take all, or a very large part, of the estate through taxation, then no one would suffer disappointment because there would be no expectation of receiving anything of consequence, and such taking by the state would be without oppression and burden.[8] Bentham's inheritance tax-escheat proposal is grounded in his belief that there is no natural right of inheritance, that the ends of social justice may be served by a sharp limitation through high tax rates on the legal right of succession of collaterals and others more distant in relationship, and that death-duty burden is to be interpreted in terms of the psychology of disappointment.

In evaluation of this theory of incidence it may be contended "that any addition by inheritance to the wealth of the individual increases his ability"[9] as a consumer as well as a taxpayer. Conversely, diminution of his

[5] W. J. Shultz observes that "the incidence of death taxes is simple to determine." His reasoning in support of this conclusion is that "neither directly or indirectly do they [death taxes] affect any business transactions which would permit them to be shifted. Their first and immediate effect is to reduce the estates of dead men and women. In consequence, the heirs and beneficiaries of these decedents receive smaller inheritances and bequests. Beyond any possibility of shifting, death taxes rest on these heirs and beneficiaries." *American Public Finance* (New York, Prentice-Hall, Inc., 1938), 2nd rev. ed., p. 439.

[6] *The Works of Jeremy Bentham* (Edinburgh, William Tait, 1839), Bowring's ed., part viii, p. 586.

[7] "The Economic Effects of Inheritance Taxes," *Am. Econ. Rev.*, vol. xvii, March, 1927, pp. 47-48.

[8] See Stamp, *op. cit.*, p. 345; also West, *op. cit.*, pp. 192-3.

[9] Seligman, *op. cit.*, p. 133.

inheritance in part or in whole by taxation or escheat decreases his ability. It may be argued economically that a burden exists, even though visualized as negative in character, because the inheritance has not been reduced to legal possession by the successor prior to the imposition of the tax. Should we view a death duty from the position of the predecessor rather than the successor, the argument may be made that the predecessor has exercised less than his full power of consumption during life, even though voluntarily, and, in consequence, has assumed and borne the burden of the tax. Taxes, including death duties, always carry an associated burden. Although the location of the burden may not always be clear, some individual, or group of individuals, will suffer a burden which will be reflected in a reduced economic power to consume over what it would otherwise be. Bentham believed that if a death duty were without burden to the successor the result would be a burdenless tax. Apparently he could not conceive that a death duty may establish incidence upon the predecessor, in part or in whole, a view contrary to that held by a number of economists today. Further, it seems that incidence in an economic sense may not be adequately explained in terms of the individual's psychological reaction. It is a commonplace that tax burdens, particularly in the case of indirect taxes, establish situs upon those who frequently have little or no realization of what is occurring. In consequence, an individual sense of loss or disappointment, or an appreciation that one's real purchasing power is less by reason of a tax, does not appear to be necessary. Incidence, with its associated economic effects, may be present nonetheless.

A second view of death-duty incidence which has received some, although on the whole minor, support is that the burden of such taxation rests upon the decedent. This view not infrequently regards death duties as a capitalized income tax or an occasional, compound property tax. Westlake, for example, observes that "death duties may be regarded as capitalized income tax, and that, therefore, the deceased person whose domicile is so influential in the death duties is in effect paying a deferred quota."[10] Professor Pigou, on the other hand, states that "from our point of view these duties are occasional property taxes"[11] and "instead of collecting a relatively small sum from each property every year, they collect a large

[10] J. Westlake, "The Theory of Taxation, with Reference to Nationality, Residence and Property," *Econ. Jour.*, vol. 9, Sept., 1899, p. 372.

Of a similar opinion is C. F. Bastable who declares that "we find that a fairly constant proportion of property passes annually by death, and we are thus led to regard the death duties as a capitalized income-tax levied only on accumulated wealth. . . ." (p. 594). And "on the whole, we may best regard the succession duties as presenting a parallel to the income-tax. The latter withdraws annually for the service of the state a portion of the new wealth created in the period; the former operate in the same way, but at uncertain intervals, on the collective wealth of the society" (p. 608). *Public Finance* (New York, Macmillan, 1927), 3rd ed.

[11] A. C. Pigou, *A Study in Public Finance* (London, Macmillan, 1929), p. 161.

sum from each property at intervals averaging about thirty years and associated with the death of the proprietor. This is the essential point."[12] Although he does not express specifically his conclusion as to the incidence of the compound property tax (death duties), it seems reasonable to infer that he views the burden as attaching to the decedent. He reasons that successors are indifferent to the amount of death taxes, that their consumption will remain unaffected by such taxation, and that the whole of the levy will be paid by the transference of an appropriate amount of estate value to the government.[13] Professor de Viti de Marco, in discussing a tax on successions, contends that the tax should be visualized as consisting of two parts.[14] One part represents the sum of annual postponed income taxes which is not paid until death.[15] He concludes that the incidence of this part of the tax is upon the decedent.[16] The other part is that excess of succession tax above the sum of the postponed income taxes, with incidence upon the successor.[17] However, he agrees that the full amount of the death duty is paid from the proceeds of the estate and does not impair or burden the successor's power to consume the pecuniary benefits of the inheritance excepted.[18] Professor G. F. Shirras takes the position that the estate tax is an occasional property tax,[19] and he argues vigorously that the incidence is upon the predecessor.[20] He dismisses as

[12] *Ibid.*

[13] "Since heirs as a rule look to what actually comes to them and are little interested in what would have come to them on the hypothesis that there had been no death duties, they are very unlikely to meet any part of a death-duty levy by cutting down their consumption. Even small levies made at that moment would, therefore, be paid to practically their full amount out of capital in the sense described above. *A fortiori* this will be true of large levies. Practically, we may conclude that the whole of death-duty levies will in fact be so paid; in other words, that, so far as the present argument goes, they will deplete the volume of savings by their full amount." A. C. Pigou, *op. cit.*, p. 163.

[14] "Thus the tax on successions consists of two parts: one is the debt accumulated by the deceased; the other is the new tax which falls on the heir. In all cases, however, the sum of the two is assessed on the inherited estate. . . ." *First Principles of Public Finance* (New York, Harcourt Brace, 1936), p. 362.

[15] *Ibid.*

[16] " . . . the heir accepts the inheritance with the privilege of inventory—that is, he pays a tax on the inheritance only if he finds that the estate which he inherits is large enough to pay the tax, after deduction of all debts. The sacrifice involved in the payment of the tax has therefore already been borne by the deceased, whose estate pays the tax." *Ibid.*, p. 361.

[17] *Ibid.*, p. 362.

[18] *Ibid.*, pp. 361-2.

[19] *Science of Public Finance* (London, Macmillan, 1936), 3rd ed., vol. ii, p. 542.

[20] "The incidence of death duties raises the question whether the burden falls on the testator or on the inheritor or on both. . . . It may be argued that the estate duty falls on the testator because it falls on the property accumulated by the deceased. It prevented his leaving more to the inheritor than would otherwise have been possible. The testator may deliberately save in order to meet the charge, and it may be said that the duty falls on him. The testator in his lifetime knows that his estate will be liable for the duty, and he knows approximately what the burden will be, assuming the present rate and estate valuation to be the same at death as when he makes his estimates. He, therefore,

being irrelevant any opposing contention that the testator is dead before the tax is levied and that the inheritor is the one who makes payment of the tax.[21] Professor Shirras believes that the crucial element in establishing incidence on the predecessor is to be found in the actions of the predecessor in saving or insuring to meet the tax. The saving of income, or the payment of insurance premiums (out of income), against the day of levy of the tax obviously indicates that the burden is on the predecessor. However, because testator actions may not be generalized, with the recognition that testators will react differently in their several environments, he believes it is better policy to regard the incidence of the estate tax as indeterminate.[22] In regard to legacy and succession duties he quotes with approval the conclusion of the Committee on National Debt and Taxation that the incidence is upon the successors.[23] Professor Edwin Cannan seems to imply that incidence is upon the predecessor when he observes that inheritance taxes "are a species of property tax levied at uncertain intervals" with "their exact effect . . . upon persons who expect to leave property . . . a psychological problem of some complexity."[24] The Committee on National Debt and Taxation suggests that while one may not say that the estate duty establishes incidence uniformly on predecessors, nevertheless, there is "good support for giving primary but not exclusive place to the notion that the incidence of the duty is on the predecessor."[25] This assignment of burden is based upon predecessor actions and state of mind as found in deliberate saving against the future death duty by curtailment of expenditure, greater industry, or both, which, in general, the Committee thinks occurs.[26] The argument that estate duty incidence attaches to the successor because the property coming into his possession and use is reduced by the amount of the tax, affecting the successor's, rather than the predecessor's, power to consume, is not regarded as persuasive by the Committee.[27]

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saves to pay for this and indeed insures against the tax. The incidence is clearly then on the testator, as was the intention of the legislature when it was imposed." *Ibid.*, vol. i, p. 386.

[21] *Ibid.*, pp. 386-7.

[22] *Ibid.*, p. 387.

[23] *Ibid.*

[24] Committee on National Debt and Taxation, *Minutes of Evidence, op. cit.*, vol. i, p. 60.

[25] *Report, op. cit.*, p. 171.

Professor J. M. Keynes appears to be in agreement with the conclusions reached by the Committee as to death duty incidence. He states that "our direct taxes [income tax and death duties] are exceedingly unpleasant to the rich individuals on whom their full weight falls. . . ." "The Colwyn Report on National Debt and Taxation," *Econ. Jour.*, vol. xxxvii, June, 1927, p. 199.

[26] *Ibid.*, p. 170.

[27] ". . . the mere fact that the duty diminishes the property into which the successor may enter is no proof of its incidence being on the successor. There is no absolute distinction between the Estate Duty and the Income Tax in this respect; the Income Tax,

The distinction and differentiation as to incidence between the estate duty on the one hand and the legacy and succession duties on the other by the Committee and by Professor Shirras, who follows the Committee in this regard, lie apparently in the formal differences between these two forms of death taxation as found in the rate graduation of the estate tax with respect to the size of the estate only, while the legacy and succession duties relate directly in rate graduation to the beneficial interests and their relationship to the decedent; in the legislative intention that the estate tax burden rest on predecessors and the burden of the legacy and succession duties on the successors; in the view of the Committee that the latter duties are in the nature of acquisition taxes on beneficiaries; in the belief that testators are less likely to make provision to meet the burden which they impose; and that these duties are not to be regarded as a deferred tax on the predecessor as is the estate duty.[28] In the judgment of the Committee the "intention is that the duties [legacy and succession] should fall upon the person receiving the benefit, and we think that, in fact also, the burden should generally be regarded as falling upon him."[29] However, the Committee does not appear to be convinced that its argument is adequate support of this differentiation. It concedes that "practically . . . the duties are very much in the nature of an addition to the Estate Duty, going some way to differentiate the total burden according to consanguinity. In the main, the considerations affecting the Estate Duty affect these duties also."[30]

The above reasons advanced by the Committee are not, in our view, of sufficient weight to justify economic differentiation in incidence between estate and legacy and succession duties. The case for the identity of incidence of these duties has been stated previously.

A third view, which has been quite generally endorsed by professional economists, contends that the incidence of death duties is upon the successors. Adam Smith asserted that "taxes upon the transference of property from the dead to the living, fall finally as well as immediately upon the person to whom the property is transferred."[31] David Ricardo, who did not favor death duties because he believed that they resulted in capital impairment, quotes Adam Smith with approval as to the location of incidence upon the successors.[32] In comparison with death duties he fa-

so far as it takes away income which would have been saved, is a tax on potential capital, retarding the accumulation of wealth and diminishing the estate which can be left on death, yet no one hesitates to ascribe the whole of its incidence to the predecessor." *Report, op. cit.*, p. 170.

[28] Committee on National Debt and Taxation, *Report, op. cit.*, pp. 171-2, 195.

[29] *Ibid.*, p. 172.

[30] *Ibid.*, p. 195.

[31] *Wealth of Nations* (London, Methuen), 4th ed., (Edwin Cannan), vol. ii, p. 346.

[32] "If a legacy of 1,000£ be subject to a tax of 100£, the legatee considers his legacy as only 900£ and feels no particular motive to save the 100£ duty from his expendi-

vored taxation of corresponding weight on income, commodities, or property, which would result in curtailment of consumption rather than diminution of capital.

Hugh Dalton has no difficulty in placing the incidence of a death duty squarely on the successor, for, as he says, "There has been some dispute as to whether its incidence is on the successor or the predecessor. Clearly . . . [the incidence] is on the successor, for the predecessor must be dead before the tax can be levied and dead men, like other inanimate objects, can pay no taxes."[33] He adds, "The fact that the predecessor may have insured against the tax beforehand is irrelevant to the question of incidence, though not, of course, to the wider question of effects."[34] Dalton assumes that a tax may impose no burden prior to the actual levy and collection, that restriction of consumption power, in anticipation of a tax and to provide for its payment, is without implication of incidence, and that the pressure of a tax upon one's mode of living, which measures burden, must always be subsequent to the imposition of a tax and may never be prior to its actual imposition. It seems that perhaps Dalton attaches undue significance to the particular time of payment and to the inability of the decedent to make the tax transfer through his own hands rather than the hands of the executors, or successors.

The Committee on National Debt and Taxation, as well as other writers on incidence, appears not to be impressed with the Daltonian argument. Sir Felix Schuster, in his appearance before the Colwyn Committee, expressed the judgment that the burden of death duties "falls on future generations, and to a great extent the present generation is inclined to disregard its consequences."[35] The basis of this conclusion is his belief that decedents during life, in general, make little or no advance provision for death duty payment by curtailment of current consumption because of the remoteness of the levy, as well as because of the difficulty of effecting satisfactory arrangements.[36] In consequence, because the incidence may

ture, and thus the capital of the country is diminished; but if he had really received 1,000£, and had been required to pay 100£ as a tax on income, on wine, on horses, or on servants, he would probably have diminished, or rather not increased his expenditure by that sum, and the capital of the country would have been unimpaired." *Principles of Political Economy and Taxation* (London, John Murray, Ricardo's Political Works, J. R. McCulloch, 1846), p. 89.

This illustration suggests the opposite of Ricardo's contention that death duty burden rests on the successor. If, as he says, the legatee considers any legacy in terms of its net amount (after deduction of tax) it would appear that there is no burden but only a net gain as measured by the amount of added purchasing power.

[33] *Principles of Public Finance* (London, Routledge, 1936), 9th ed., p. 53.

[34] *Ibid.*

[35] Committee on National Debt and Taxation, *Minutes of Evidence, op. cit.*, vol. i, p. 13.

[36] The decedent "does not provide by insurance because the corpus of the insurance is added to the corpus of his estate and he pays tax on that again. It raises the scale which he pays, so it seems hardly worth while to insure. Therefore the provident find it extremely difficult to make proper provision." *Ibid.*

not be assigned to the predecessors, it must rest, by exclusion, with the inheritors.

Henry Sidgwick is in agreement with Sir Felix Schuster both as to the situs of death duty incidence and the explanation for it. Sidgwick states that "it is plain that the pecuniary loss caused by any such tax falls on the person who inherits, since he would have been richer by the exact amount of the tax, if that had not been imposed; except so far as it is probable that the person from whom he inherits, being aware of the tax, may have left him a larger property in consequence—a probability which, I imagine, is not practically important in the case of most of the property obtained by inheritance."[37]

W. J. Shultz follows the same reasoning in observing that death duties result in a diminution of inheritances to successors by an amount proportionate to the tax; also, that no business transactions are affected by the tax, with the result that shifting is impossible. The incidence of such taxes, therefore, is on the beneficiaries.[38]

Professor Studenski points out that the "incidence of the tax in either case [estate or inheritance] is on the heirs, but it is distributed among them differently in the two cases. Thus, under an estate tax, the incidence frequently is entirely on the recipient of the residuary share. Other heirs, who are entitled under the will to shares of specified amounts, receive them without any deduction for the tax imposed on the estate."[39] The suggestion that the burden is not distributed among the heirs in proportion to their inheritances is, of course, correct, if the burden of death duties has its situs on the successors and if there is a residuary share, or shares, in combination with specific bequests.

Professor H. G. Brown concludes that death-duty incidence is upon successors, apparently, unless shifting occurs under circumstances of which the burden rests on laborers or landowners, or both, in the long run.[40] Professor Brown reasons that if personal motives to save are affected adversely by death taxation the total accumulation of wealth will

[37] *The Principles of Political Economy* (New York, Macmillan, 1901), 3rd ed., p. 579.

[38] *American Public Finance* (New York, Prentice-Hall, 1938), 2nd rev. ed., p. 439; see also *Encyclopedia of the Social Sciences*, vol. viii, p. 48.

Shultz apparently repudiates this conclusion in a subsequent statement in which he says that "inherited wealth is in the nature of a windfall. Beneficiaries and heirs have not earned it and have no right to it other than that created by state statutes of descent and bequest. Furthermore, until they receive their shares from the executor or administrator of the estate, the taxed property does not belong to them and they can not be considered as burdened by any taxes upon it." *Ibid.*, p. 441.

[39] In W. E. Spahr and others, *Economic Principles and Problems* (New York, Farrar and Rinehart, 1936), 3rd ed., pp. 641-2.

[40] *The Economics of Taxation* (New York, Holt, 1924), p. 209.

In the words of Professor Brown "so far as such a tax did operate to decrease the volume of saving and raise interest rates, its burden would be upon laborers or landowners or both and not upon owners or inheritors of capital." *Ibid.*

be decreased, or not increased at as rapid a rate as would otherwise be the case.[41] As a result, the rate of interest[42] will rise, relatively, and the burden of the death taxes will be shifted, in part or in whole, from the shoulders of the successors. Should shifting occur, presumably the interest return per unit of inherited capital will rise relatively to the point at which the diminution in the amount of capital will be offset.[43] Successors, therefore, will not find their position less favorable in consequence of the tax. While Professor Brown thinks it probable that some shifting occurs, he believes that one may not conclude definitely that this is the case.[44]

Professor J. M. Keynes speaks of the probable unfavorable reactions of death duties upon the national savings, but does not relate such repercussions to shifting.[45]

Professor A. G. Buehler seems to infer that the incidence of inheritance taxes is to be distinguished from whatever subsequent economic effects may result therefrom through influence on savings and interest rates.[46] In his judgment death duties are not shifted.[47] Professor Buehler apparently employs the term incidence in the narrow sense as defined by the Committee on National Debt and Taxation,[48] while Professor Brown gives

[41] *Ibid.*, pp. 208-210.

[42] The complex of rates of interest.

[43] H. G. Brown, *op. cit.*, pp. 209-10.

[44] *Ibid.*, p. 211. Professor H. M. Groves agrees with Professor Brown that if shifting takes place it occurs principally "through reduced saving and the higher rates of interest which might follow therefrom." However, the "factors here involved are remote and uncertain in their operation and effects." *Financing Government* (New York, Holt, 1939), pp. 145-61.

Professor J. P. Jensen, on the other hand, maintains that the "argument that in the long run the tax will be shifted because persons accumulating estates, and facing the prospect of a tax that will reduce the estate, or the separate shares thereof, will be moved to save less or work less, thereby reducing the nation's stock of capital, has not much weight. It might equally plausibly be argued that such persons will save more and work harder in order to leave an estate of a contemplated amount. Probably the prospect of the tax has no appreciable net effect one way or the other." *Government Finance* (New York, Crowell, 1938), p. 202; see also T. S. Adams, "Effect of Income and Inheritance Taxes on the Distribution of Wealth," *Proceedings*, Am. Econ. Assoc., vol. 5, 1915, p. 240.

Professor E. R. A. Seligman observes that "the ulterior effects of which some writers speak, such as the influence of inheritance taxes on the accumulation of capital, do not really illustrate the process of shifting. They are, moreover, of such doubtful validity that they may be neglected." It is his opinion that "a tax on inheritances or bequests cannot be shifted, for evidently there is no one to whom it could be transferred." *The Shifting and Incidence of Taxation* (New York, Columbia Univ. Press, 1910), 3rd ed., p. 371.

[45] *Op. cit.*

[46] Inheritance taxes "are not shifted, although it is debatable how such taxes may influence the accumulation of capital and interest rates." *Public Finance* (New York, McGraw-Hill, 1936), p. 241.

[47] *Ibid.*

[48] The Committee states that economists generally attach a narrow meaning to the term incidence. "For them 'incidence' is only concerned with the question on whom the more immediate burden of the tax as a tax rests," while "in general usage the term

it a broader connotation, which seems to include the principal sequential economic tax effects.[49]

A fourth view of death-duty incidence finds expression in the conclusion that the burden is partly on the predecessors and partly on the successors, with the proportions indeterminate. This theory of the mutual sharing of burden is illustrated by the analogy of estate duty to income tax as outlined by the Colwyn Committee—namely, that "when one compares the Income Tax with the Estate Duty, regarding the latter as a kind of postponed Income Tax, one sees clearly the solidarity of the interests of predecessor and successor. The Income Tax, in a concealed way, hits the taxpayer's son as well as the taxpayer himself, and may hit him just as severely. But the damage is separated by a time-gap. In the case of the Estate Duty the time-gap is bridged, and the damage is at once apparent."[50] As previously indicated, the Committee does not follow this analogy in reaching its conclusions of incidence. Although H. A. Silverman supports the conclusions and reasoning of the Committee generally, he goes somewhat further in that he approves the theory of mutuality in death-duty incidence under circumstances in which "the economy during the testator's lifetime has directly or indirectly affected the income and standard of living of the heir."[51] He believes that the actions of the predecessor as affected by the death taxes is the determining factor in establishing incidence.[52] When the standard of living of the testator has been unaffected and his productive efforts not increased, then the burden is wholly on the successors; conversely, the burden rests solely with the predecessor should he work harder and through the extra effort accumulate a sum equivalent to the duties. However, it seems reasonable that the income or standard of living of successors, particularly direct heirs, will be affected either directly or indirectly if the predecessor has reacted in any positive fashion, even in minor degree, toward protecting his estate. In this event, according to Silverman, the burden of the duties would be shared by predecessor and successors. It seems that if the personal equation of the testator is the all-important consideration then the determina-

covers not only the initial burden of a tax, but also the whole range of consequential effects." *Report, op. cit.*, p. 106.

[49] For others (than those whose conclusions have been discussed) who appear by implication to hold to the view that death duty incidence is on the successors see J. P. Jensen, *op cit.;* Solomon Huebner, "The Inheritance Tax in the American Commonwealths," *Quart. Jour. Econ.*, vol. xviii, Aug., 1904, p. 548; T. S. Adams, *op. cit.;* M. S. Kendrick, *Taxation Issues* (New York, Harper, 1933), p. 119; H. A. Millis, "The Inheritance Tax in the American Commonwealths," *Quart. Jour. Econ.*, vol. xix, Feb., 1905, p. 298; A. C. Pleydell, "The Incidence of Taxation," *Proceedings*, Nat. Tax Assoc., 1907, p. 429; John Harrington, "The Inheritance Tax," *Annals of Am. Acad. of Pol. and Soc. Sci.*, March, 1915, p. 87; Max West, *op. cit.*, p. 215.

[50] Committee on National Debt and Taxation, *Report, op. cit.*, pp. 170-1.

[51] *Taxation, Its Incidence and Effects* (London, Macmillan, 1931), pp. 194-5.

[52] *Ibid.*, p. 195.

tion of death duty incidence by those other than the decedent himself is largely an impossibility.

In passing these various theories of death duty incidence briefly in review, with the supporting arguments of certain of their principal proponents, substantial diversity in approach, in assumptions, either express or implied, and in reasoning is apparent. Certain writers, as has been noted, seem to be strongly impressed with the formal legal differences rather than the substantive economic similarities of the estate tax as compared with legacy and succession, or inheritance taxes; also, legislative intention as to burden situs seems to be given some significance in determining the location of burden. The fact that the predecessor has no animate existence at the time of the imposition of death duties and cannot, in person, tender the tax payments has been a highly persuasive consideration. The reaction of testators during life in anticipation of death taxes, likewise, has been regarded as a highly important factor. The extent to which the economic relationships of successors to predecessor have been affected by more or less advance tax provision on the part of the testator has been treated as a critical element in assigning incidence. The repercussions of death duties on capital supply, and through capital supply to interest rates, have been regarded as indicative of their shiftability from point of original situs.

For reasons stated previously, it is believed that death taxes, whether on the estate as a whole, or levied separately on its parts, should be regarded as establishing the same incidence. Economic considerations, rather than legislative intention, are regarded as determinant of burden location, though the latter may be of considerable political or social interest. The inability of the predecessor to tender tax payment in person, which, it is alleged, relieves the testator of burden, confuses incidence with payment. Further, the burden of a tax is not necessarily subsequent to the payment of a tax. Frequently the burden of a tax will be felt, and amortized, through curtailment of real income, prior to the time of actual payment. Especially is this true of direct taxes. While the reactions of predecessors to death duties as found in increased productive effort, or in curtailment of consumption power, or both, are of importance from the point of view of the economic effects of the duties and of testator psychology, these reactions do not seem to be an appropriate indication and measure of incidence. One's consciousness of a tax, admittedly of importance in terms of certain economic effects, does not serve, apparently, to determine burden situs. Indirect taxes are illustrative, frequently, of taxes which establish situs on those who may have no consciousness of burden, but whose real income is nevertheless impaired. Clearly, those who acquire by birth, marriage, or in other ways, a status of economic or social dependency

upon the testator will have their incomes or standards of living affected in some degree, directly or indirectly, by whatever the predecessor may do, whether it be by curtailment of consumption in anticipation of the death duties, or in the act of saving to create an estate without consciousness of such taxation. It appears that these are matters which relate to economic effects, of taxation or of the act of saving, rather than to tax incidence. If the term incidence is interpreted and applied with reference to the attachment of the immediate burden of the tax, it seems that the extent to which personal motives to accumulate are affected by the duties should be regarded as an economic effect of incidence. Admittedly, in certain cases the motives to save or accumulate may be weakened in consequence of the psychological reactions of predecessors to death taxation.[53] This seems, however, more appropriately to be regarded as an effect of incidence rather than a part of the process of incidence establishment at a point apart from the predecessor. An analogy may be drawn between personal net income taxes and death duties in terms of the absence of subsequent price transactions, and the indirect and indecisive manner in which personal industry or activity may be affected in the former case and personal saving in the latter. From this point of view, death duties appear not to be shifted, even though capital supply is diminished relatively in consequence, thereby causing a rise in interest rates.

In conclusion, it is submitted that death duties, including both estate and inheritance taxes, may be regarded as establishing full and final incidence upon predecessors. From this point of view, incidence is interpreted as involving the immediate burden only. Further, burden is visualized positively rather than negatively. Successors to estates, in an economic sense, seem, therefore, to be the beneficiaries of a fortuitous income[54] to the net extent of the benefits. Although inheritance, particularly by lineals, may be regarded as based on a strong moral and ethical foundation, an economic basis as found in direct estate creation in general seems wanting. The sharing in estates through the legal right of succession appears to constitute a net gain to successor real income, regardless of amount, or of tax and other deductions which may be made in reaching the net share available to the use of the beneficiary. From this approach, it does not appear that the successor's power to consume will be burdened except in a negative sense, with the distributive share larger in the absence of death duties. The successor finds himself in the position that his standard of living is increased over and above his individual economic exertions. On

[53] Possible offsets to the relative diminution of capital supply as a result of death taxes may be found in the lessened weight of other forms of taxation and in the character of the public expenditure of death-duty revenue.

[54] "What is principal or corpus to the estate is 'fortuitous' income to the distributees of the estate. . . . " T. S. Adams, *op. cit.*

the other hand, the predecessor, by estate creation through saving and industry, or by failure to employ his full economic resources to achieve a maximum standard of living during life, even though part of these resources consists of an inheritance of which he was the beneficiary, has not exercised his full power of consumption. The incidence of death duties, as well as those economic costs of estate creation or preservation to which estate the beneficiaries succeed, seems, therefore, to rest upon the predecessor.

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DIVISION OF THE TAX BURDEN AMONG INCOME GROUPS IN THE UNITED STATES IN 1936

Recent statistical studies of the tax payments of members of different income groups (Twentieth Century Fund) and of the numbers of persons in those groups (National Resources Committee) now make possible calculations of the actual distribution of the tax burden in the United States with a fair degree of accuracy. Allowance must be made for various possibilities in the shifting of indirect taxes and for differences in the tax systems of different states. That fortunate few (1.4 per cent) whose incomes exceeded $7,500 paid one-third of the nation's taxes. An analysis by taxing divisions shows the median income for dividing the tax burden equally above and below was $2,600 for the nation as a whole, $2,000 for state and local taxes (Illinois), and $15,000 for federal taxes. The lower income groups paid a higher percentage of the tax burden than the percentage of the national income which they received.

The questions of who pays our taxes and who should pay them are perennial. Economists have long discussed the question of tax shifting to explain why certain taxes are or are not a burden upon the immediate payers thereof. The reasoning has been largely *a priori* and only in the past few years have statistical investigations been made. To correlate one of those studies with recent findings on income distribution and draw further conclusions is the purpose of this paper.

In *Facing the Tax Problem* and *Studies in Current Tax Problems* the Twentieth Century Fund (hereafter: TCF) has published the results of an extensive investigation into the tax burden of ten "typical" representative families of different income classes.[1] Separate calculations were made under five different shifting hypotheses. Federal, state, and local taxes as of 1936 were analyzed to determine their probable incidence on the families selected. As a result of extensive computations, Professor Newcomer and her associates under the Fund derived conclusions regarding the total tax burden per family. The findings were expressed both in terms of dollars and as percentages of total incomes that would have been received had no taxes been shifted.

Valuable as this study is, it does not afford an answer to the question, "What percentage of the total tax burden of the country is borne by the people of different income classes considered as groups?" Wealthy people often allege that they are paying most of the cost of government. Occasionally they change their tune and try to arouse popular disapproval of government spending by claiming that all taxes are shifted to ultimate consumers and that therefore the poor, being the most numerous, shoulder the tax burden of the country.

Legislators are also interested in this question. It is not enough for them to know the TCF estimate that the man with a $1,000 income pays approximately 10 per cent of his income in direct and hidden taxes and that the $5,000 man pays 20 per cent. They should also know how much of the

[1] New York, 1937.

total cost of government is paid by people with incomes under $1,000, or over $5,000. Only by considering both sets of percentages can an "equitable" tax policy be formulated.[2]

In the studies referred to, there were five different assumptions regarding tax shifting.[3] We have omitted the fifth, as highly improbable, and for New York have combined the second and third into our number II since they differ only regarding the shifting of the sales tax and New York State has none.[4] This left seven different estimates for the taxes borne by each of ten "typical" families. The next problem was to combine the estimates for farm incomes of $500, $1,000, and $2,000 with the wage-earner incomes of $1,000 and $2,000 to get representative figures for income receivers in the country as a whole. At the $5,000 level the merchant and salaried employee estimates of the Twentieth Century Fund also had to be correlated and then from the combined figures interpolations were required to fill the gaps between the representative incomes chosen.

To estimate the tax paid by wage earners at the $500 level, a figure was chosen from 51 per cent to 58 per cent of the tax paid in the $1,000 income group, the percentage varying with that shown by farm taxpayers in the two groups under the seven different assumptions. An average of the two

[2] A "sound" tax policy may, unfortunately, involve measures which in the short run appear unjust. Soundness and justice are at best relative terms and usually have not the same reference for different people.

[3] A. Assumptions unchanged from series I to IV:
1. Taxes borne by the payer (or stockholder, if corporation)
   a. Personal income tax (husband and wife make separate returns, except for the $5,000 salaried worker)
   b. Death and gift taxes (property divided between parents and substantial gifts made to children, except for $5,000 salaried worker)
   c. Business net income and capital stock taxes
   d. Stock transfer tax
   e. Mortgage tax

B. Assumptions changing with different series:
1. Land Tax
   a. Series I, II, III: all capitalized.
   b. Series IV: half capitalized; half borne like tax on improvements.
2. Taxes on improvements, personalty, commodities, gross receipts, motor vehicles, motor fuel
   a. Series I: entirely shifted
   b. Series II: half shifted to final consumer; half borne by taxpayer
   c. Series III and IV: half shifted to final consumer; one-fourth of sales tax shifted back to producer of commodities; one-fourth borne by merchant-taxpayer.
3. Payroll tax (applies only to the 1 per cent levy of 1936)
   a. Series I: entirely shifted
   b. Series II, III, IV: one-third shifted to final consumer; one-third shifted to employee; one-third borne by taxpayer

(Rearranged from *Studies in Current Tax Problems*, p. 11.)

[4] Series V was the same as series IV except that husband and wife were assumed to make joint, not separate, income-tax returns, and that the husband did nothing to reduce estate and inheritance taxes (*idem.*).

occupational estimates at $500 was then computed weighting farmers 2 and wage earners 1. This ratio was based on the Brookings study of farm and non-farm families in 1929.[5] At the $1,000 income level both figures were given and needed only to be combined. Weights here were changed to 1 for farmers and 2.5 for wage earners, again following the Brookings data. At $2,000, the weights were 1 to 7.

The $5,000 income group presented a different problem since farmers were dropped and a comparison was made between the tax burden of a salaried man and a merchant. From census reports we estimated that a weighting of 5 to 1 would be appropriate for this average. The merchant's position as a taxpayer is complicated by the question of how much of the sales and property taxes he can shift. For Illinois merchants this is very important since in that state the retail sales tax forms a major source of revenue. One should note, however, that the TCF study classifies within the $5,000 income class those whose *potential* incomes are greater than $5,000. Thus the merchant, who under assumption IV in Illinois is assumed to bear $4,736, in federal, state, and local taxes, had a potential income of $8,777 so that he is not left with such a small remainder as a comparison of the tax burden with $5,000 would indicate.[6]

The next step was to compute the number of persons in each of the income groups. These were estimated from the National Resources Committee (hereafter: NRC) report on *Consumer Incomes in the United States, Their Distribution in 1935-36*.[7] Without the fortunate coincidence in the years covered by this and the TCF study, the present computations would have been much more difficult, if not impossible. Even so, there are numerous difficulties in combining the two sets of data. For instance, the NRC report gives the income distribution among both families and single individuals, but Professor Newcomer investigated tax burdens only in the budgets of families. Obviously there are differences between the budgets of families and single individuals, but no material was available to permit separate tax computations for the latter group. These unattached persons could not be excluded from a picture of the tax burden of the country as a whole since they spent about one-fifth of the total national income in 1935-36. Hence they were grouped with families; and all consuming units were considered to have equal tax burdens at their respective income levels.

Representative cases were then sought, following the seven levels re-

[5] Leven, Moulton, and Warburton, *America's Capacity to Consume*, Washington, 1934, p. 227. These figures undoubtedly underrate the number of non-farm families having low incomes in 1936.

[6] "Potential income is actual income less the amount of the tax on land that, it is assumed, has been capitalized and plus the additional amount that would have been received in the absence of certain taxes." *Studies in Current Tax Problems*, p. 22. For the complete table of potential incomes under the different assumptions see Table A-17; *idem.*, p. 28.

[7] Washington, U. S. Government Printing Office, 1938, Table 2, p. 6.

maining in the TCF tables after the consolidations described above. Only the $100,000 example was discarded as coming at an inconvenient interval. Seven others were added at appropriate and easily calculated levels. Figures sought were those which gave medians such that the total number of consuming units in the NRC table would be divided with approximately half above and half below the median. A margin of error inevitably entered here. For instance, there were 6,711,000 cases below $500 annual income, and 5,772,000 in the group from $500 to $750, yet $500 was chosen as the median figure. Since those receiving less than $500 spent amounts ranging down to zero, perhaps the median of this large group of 12,483,000 families should have been $400 or $450 with a corresponding reduction in the amount of the average tax burden per case. By a similar line of reasoning, perhaps $1,450 and $1,950 would have been more accurate medians than the $1,500 and $2,000 round numbers chosen. At the higher incomes where interpolations in the Twentieth Century Fund estimates had to be made anyway, medians were chosen at the most exact points possible, such as $37,000, $65,000, and $600,000. These errors in the lower income groups tend to make the final tax burden computations slightly higher at those levels than they should be; but we believe the figures are not seriously out of line considering the inexactitude which perforce accompanies all the computations upon which this paper is built. The margin of error in the final results is larger than we should like, but not so great as to prevent their being useful in presenting a general picture of the distribution of the tax burden of the country.

From the tax burden estimates of the TCF study Lorenz curves were plotted for each of the New York and Illinois hypotheses and figures for the seven interpolated incomes (shown in Table I) were read.

With these basic data in hand we proceeded to multiply the tax burden of the representative (median) case by the number of cases to get the total tax burden of the group. This was done for each of the shifting assumptions in the two states. The sums of the seven columns thus obtained ranged from $10,773,000,000, to $12,570,000,000. As a cross-check for accuracy, these figures were compared with the National Industrial Conference Board estimates of the total tax burden of the nation which was $10,498,000,000 for 1936.[8] Our totals appear slightly higher than they should be, but when reduced to percentages of the whole the discrepancy cannot be serious. And it is with percentages that we are most concerned.

If our computations do not introduce too great a margin of error, perhaps the above comparison may be used to test the relative validity of the four shifting assumptions used. That is, assumptions II and III as applied to New York State conditions give the lowest total tax burdens and there-

[8] *Cost of Government in the U. S.* (quoted in the National City Bank *Bulletin* for July, 1938, p. 82).

TABLE I

DISTRIBUTION OF TAX BURDEN BY INCOME GROUPS, 1936

Income groups (dollars)	Median income (dollars)	Number of cases in group	Total tax burden per case New York families (dollars)		
			Shifting assumptions		
			I	II and III	IV
0–750	500	12,482,871	75	80	105
750–1,250	1,000	10,867,073	160	140	170
1,250–1,750	1,500[1]	6,633,332	233	205	230
1,750–2,250	2,000	4,000,557	317	266	318
2,250–4,000	2,800[1]	4,083,628	520	375	450
4,000–7,500	5,000	844,457	1,078	1,014	1,152
7,500–15,000	10,000[1]	368,324	2,380	2,400	2,790
15,000–30,000	20,000	133,331	7,459	7,679	8,075
30,000–50,000	37,000[1]	26,299	14,500	15,700	16,200
50,000–100,000	65,000[1]	13,041	28,000	30,400	30,500
100,000–500,000	200,000[1]	5,060	135,000	115,000	120,000
500,000–1,000,000	600,000[1]	240	453,300	455,000	460,000
1,000,000 up	1,000,000[2]	87	1,114,597	1,155,622	1,180,487

Median income	Total tax burden per case Illinois families (dollars)			
	Shifting assumptions			
	I	II	III	IV
500	72	70	78	84
1,000	166	135	140	156
1,500[1]	258	200	200	228
2,000	337	264	269	302
2,800[1]	478	455	410	510
5,000	1,046	1,527	1,304	1,628
10,000[1]	2,500	2,800	3,200	2,800
20,000	6,291	6,288	7,488	6,599
37,000[1]	13,100	12,500	14,000	13,300
65,000[1]	25,800	24,500	27,000	26,400
200,000[1]	115,000	120,000	133,000	105,000
600,000[1]	475,000	480,000	450,000	410,000
1,000,000[2]	1,034,269	1,062,966	1,167,966	1,079,997

[1] Interpolated figures at these levels for all shifting assumptions.
[2] N.B. *Potential* incomes at the $1,000,000 level were from $1,277,190 to $1,434,946. Other levels were also higher than the median income would indicate. See note 6, above.

fore might possibly be considered more representative of conditions prevailing throughout the country than assumptions I and IV. The Illinois totals are also lowest for II and III. Both of these assumptions hypothecate only a partial shifting to the final consumer of such taxes as excises, payroll, customs, personalty, and realty improvements. Hence they do not give

such high figures for the tax burdens of low income groups and reduce the total.[9]

By dividing the tax burden of each group by the total under the several assumptions, the percentages were computed and then added to show cumulative percentages from the lower income groups on upward. These figures are given in Table II.

The poorest 12,483,000 cases, or 32 per cent of the total, with incomes below $750, bore about 9.2 per cent of the total taxes of the country under assumptions II and III for New York. Slightly less than half of the nation's

TABLE II

CUMULATIVE TAX BURDEN BY INCOME GROUPS

Upper limit of group	Cumulative percentages total tax borne							Cum. per cent number cases in groups	Cum. per cent aggregate income received by groups
	New York			Illinois					
	I	II and III	IV	I	II	III	IV		
$ 750	7.8	9.2	10.4	7.6	7.8	8.5	8.6	31.6	9.6
1,250	22.2	23.3	25.0	22.8	20.9	21.8	22.5	59.2	27.7
1,750	35.1	35.8	37.2	37.3	32.7	33.4	34.7	76.0	44.1
2,250	45.6	45.6	47.3	48.7	42.2	42.8	44.6	86.1	57.3
4,000	63.2	59.7	61.9	65.2	58.8	57.4	61.6	96.5	76.9
7,500	70.8	67.6	68.4	72.7	70.3	67.0	72.8	98.6	84.1
15,000	78.1	75.8	76.6	80.5	79.5	77.3	81.2	99.56	90.2
30,000	86.4	85.2	85.9	87.6	87.0	86.0	88.4	99.89	94.9
50,000	89.6	89.0	89.3	90.5	89.9	89.2	91.3	99.96	96.6
100,000	92.6	92.7	92.5	93.3	92.8	92.3	94.1	99.99	98.1
500,000	98.3	98.1	97.3	98.2	98.2	98.2	98.4	100.00	99.5
1,000,000	99.2	99.1	98.2	99.2	99.2	99.1	99.2	100.00	99.7
Maximum	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.00	100.0

taxes were taken from the pockets of that 86 per cent of the people having incomes below $2,250 in 1935-36. To look at it from the top, the upper 3.5 per cent of the families and single individuals bore 40 per cent of the tax burden. If "the rich" may be called those with incomes over $7,500, then they number 1.4 per cent of the population and paid almost one-third of the taxes.

Another view of the same results is revealed by Table III which shows the percentage at even tens as read from a Lorenz curve plotted from New York II and III figures. With it is combined percentages showing the

[9] Assumption IV is the same as II in the matter of shifting the taxes listed above, but it provides that half of the land tax is not capitalized, but borne as in the case of taxes on improvements. This, of course, would add to the burden of all taxpayers, particularly farmers. See note 3.

amount of income received by those at each income group and cumulative. The lowest 50 per cent of the cases paid only 18 per cent of the taxes out of 21 per cent of the national income. Half the nation's tax burden fell on that 10 per cent of the families and single individuals with incomes over $2,600. But these cases received only 36.2 per cent of the national income. In other words, these figures clearly substantiate the conclusions that the rich pay most of the taxes, first, because they get most of the income, and second, because they are taxed in various ways so as to take a higher percentage of that income than of their less fortunate neighbors. The poorest of the poor, that 30 per cent of our nation's families and single

TABLE III

PER CENT OF TAXES BORNE AND INCOME RECEIVED, BY TENS (FOR NEW YORK, SERIES II AND III)

Incomes below and between	Per cent					
	Cases	Cum. cases	Taxes borne	National income	Cum. taxes borne	Cum. national income
	(poorest)					
$ 340	10	10	2.4	1.7	2.0	1.7
545	10	20	2.8	2.9	4.7	4.6
720	10	30	3.8	4.3	8.9	8.9
880	10	40	4.0	5.5	13.0	14.4
1,070	10	50	5.0	6.6	18.0	21.0
1,275	10	60	6.0	7.5	24.0	28.5
1,540	10	70	7.0	9.3	30.8	37.8
1,925	10	80	8.8	11.5	39.5	49.3
2,600	10	90	10.0	14.5	49.8	63.8
Maximum	10	100	50.2	36.2	100.0	100.0
	(richest)					

individuals who receive annual incomes of less than $720 per year seem doubly cursed. Not only do they receive a meager fraction of the national income, but in relation to the amount they receive they shoulder a larger percentage of the national tax burden than the large middle class just above.

A further comparison of interest is obtained by dividing the percentage of the aggregate tax burden borne by the members of each income group by the percentage of the total national income received by that group. The quotients for New York, II and III, are given in Table IV and reveal that no group under $4,000 income bore as large a proportion of the tax burden as the proportion of its income to the total of the nation.[10] The disturbing thing about these quotients is that they do not rise evenly as incomes increase. In fact, they decline up to $4,000 and then rise till the highest

[10] An exception must be made for those receiving less than $720 as noted above and shown in Table III. At $750 the cumulative amount swings over to the other side.

group is reached. Under other shifting assumptions whose quotients are not given here, the downward trend in the lower groups also occurs, though not always so evenly, nor always with the break just at $4,000. From these figures and those of Table III, it looks as though the tax system should be revised so as to reduce the incidence upon the very lowest groups and shift part of their burden to the groups just above. Whether all of the lower income groups should pay at a reduced rate and how much the reduction should be are questions not being considered here.

If 1939 be compared with 1936 in the matter of the incidence of the tax burden, the major change to note is the increased levies under the

Table IV

Proportion of Income and Proportion of Tax Burden (for New York II and III)

Income groups	A Per cent national income received	B Per cent nation's taxes borne	Quotient B/A
0–750	9.6	9.2	0.96
750–1,250	18.1	14.1	0.78
1,250–1,750	16.4	12.5	0.76
1,750–2,250	13.2	9.8	0.74
2,250–4,000	19.6	14.1	0.72
4,000–7,500	7.2	7.9	1.10
7,500–15,000	6.1	8.2	1.34
15,000–30,000	4.7	9.4	2.00
30,000–50,000	1.7	3.8	2.24
50,000–100,000	1.5	3.7	2.47
100,000–500,000	1.4	5.4	3.86
500,000–1,000,000	0.23	1.0	4.35
1,000,000 up	0.27	0.9	3.33

Social Security act and the unemployment insurance laws of the several states. Thus, the payroll tax for unemployment insurance is now 3 per cent instead of the 1 per cent used in the TCF study, and for the old-age annuities an additional 1 per cent is being collected together with 1 per cent levied upon pay envelopes. Many states levy an additional 1 per cent or more for their own unemployment insurance funds. The increase in taxes of this kind from 1 per cent to a total of about 6 per cent must have measurably increased the burdens of the low income groups both as customers and as employees.[11] However, the total tax collections in this category amount to

[11] Some contend with apparent logic that nearly all of the payroll taxes will ultimately be shifted to the employees and very little burden remain upon consumers. This is contrary to the assumptions in any of the TCF series. *Cf.* James K. Hall, "Incidence of the Federal Social Security Pay Roll Taxes," *Quart. Jour. Econ.*, vol. liii, Nov., 1938, pp. 38-63.

less than 10 per cent of the total tax burden of the country and to make allowance for them would not greatly modify the conclusions already drawn. A third of the national income would still be received by those with incomes above $3,000 and some 40 to 45 per cent of the taxes would be paid by them.[12]

There next remains to investigate the difference between the distribution of the tax burden of the federal government and that of state and local governments. Using TCF figures for taxes and NRC for income distribution as before, we computed the relative tax burdens as shown in the following table:

TABLE V

CUMULATIVE PERCENTAGES OF TOTAL TAX BORNE, FEDERAL *versus* STATE AND LOCAL BY INCOME GROUPS, UNDER DIFFERENT ASSUMPTIONS

Upper limit of groups	New York Series II and III		Illinois Series II	
	Federal taxes	State and local taxes	Federal taxes	State and local taxes
$ 750	3.7	11.9	3.8	10.6
1,250	9.3	28.6	10.1	26.9
1,750	14.1	42.3	15.8	40.9
2,250	18.2	53.9	20.3	52.4
4,000	26.1	70.8	30.3	73.6
7,500	34.1	78.6	37.9	86.7
15,000	45.4	86.7	50.2	94.0
30,000	64.6	92.8	68.0	97.2
50,000	72.9	94.8	76.0	98.2
100,000	80.8	96.7	84.0	99.1
500,000	94.0	99.3	94.8	99.7
1,000,000	97.2	99.7	97.5	99.9
Maximum	100.0	100.0	100.0	100.0

These percentages clearly reveal the regressive nature of state and local taxes as compared with federal. In New York under tax shifting assumptions II and III, those with incomes below $2,250 bear about 54 per cent of the state and local taxes, but only 18 per cent of the federal tax burden. In Illinois under assumption II federal taxes are borne 50-50 by those above and those below $15,000 annually; for state and local taxes the dividing line is much lower, only $2,200. For all taxes the national average was about $2,600, revealing the way in which our heavy state and local tax burden pulls the whole burden far away from the progressive ideal.[13]

The contrast is perhaps best shown by constructing another table of

[12] The payroll and pay envelope taxes under the old-age annuity provisions are not levied upon that portion of the income of an individual in excess of $3,000 from a single employer. The payroll tax for unemployment insurance was not thus limited in 1936.

[13] New York and Illinois are not truly representative in the matter of income distribution, but percentages for the country as a whole had to be used for want of any local ones.

quotients similar to that of Table IV in which the percentage of the taxes borne by each income group was divided by the percentage of the aggregate national income received by each group. The results are given in Table VI.

The quotients for federal taxes are from one-third to one-half the quotients for state and local for incomes below $4,000. In the $5,000 income group they are equal, but in higher groups the federal quotients rapidly draw ahead until at the $600,000 level they are eight times as great as the state and local.

The use of Lorenz curves permits a more comprehensive presentation of

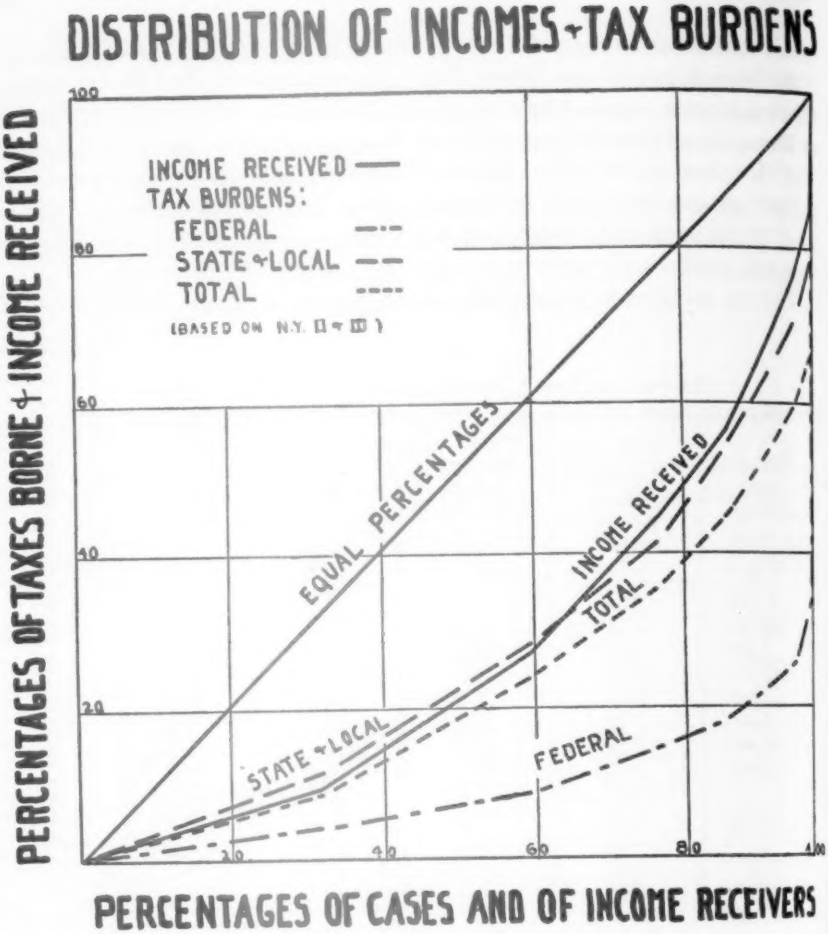
TABLE VI

FEDERAL AND LOCAL TAX BURDENS IN RELATION TO INCOMES

Median income of group	A Per cent national income received	B Per cent federal taxes borne N. Y. II and III	C Per cent state and local taxes borne N. Y. II and III	Quotient B/A	Quotient C/A
500	9.6	3.7	11.9	0.4	1.2
1,000	18.1	5.6	16.7	0.3	0.9
1,500	16.4	4.8	13.7	0.3	0.8
2,000	13.2	4.1	11.6	0.3	0.9
2,800	19.6	7.9	16.9	0.4	0.9
5,000	7.2	8.0	7.8	1.1	1.1
10,000	6.1	11.3	8.1	1.9	1.3
20,000	4.7	19.2	6.1	4.1	1.3
37,000	1.7	8.3	2.0	4.9	1.2
65,000	1.5	7.9	1.9	5.3	1.3
200,000	1.4	13.2	2.6	9.4	1.9
600,000	0.2	3.2	0.4	13.9	1.7
1,000,000	0.3	2.8	0.3	10.4	1.1

the significant comparisons developed in this paper. In Diagram I, there are plotted against the percentage of income receiving units the percentages of (1) income received (2) state and local tax burden (3) federal tax burden, and (4) total tax burden. The line of equal distribution is also given to facilitate visual comparisons. Note first the slope of the curves, and second their horizontal distance from the line of equal distribution. The unequal distribution of income percentages is, unfortunately, axiomatic under modern economic institutions. More startling is the fact that the state and local tax burden line is above that for incomes received for the lowest two-thirds of the cases. That is, those consuming units receiving incomes below approximately $1,500 per year are decidedly discriminated against by our state and local tax system. For greatest justice in taxation the total tax burden line should be much farther below the income line in the lower brackets than it is. The federal curve, while not ideal, is much preferable to

DIAGRAM I



FIGURES FOR DIAGRAM I—LORENZ CURVES
TAX BURDENS VERSUS INCOME RECEIVED

Cum. Cases	Cumulative Tax Burden N. Y. II and III (Per cent)			Cum. income received
	State and local	Total	Federal	
31.6	11.9	9.2	3.7	9.6
59.2	28.6	23.3	9.3	27.7
76.0	42.3	35.8	14.1	44.1
86.1	53.9	45.6	18.2	57.3
96.5	70.8	59.7	26.1	76.9
98.6	78.6	67.6	34.1	84.1
99.56	86.7	75.8	45.4	90.2
99.89	92.8	85.2	64.6	94.9
99.96	94.8	89.0	72.9	96.6
99.99	96.7	92.7	80.8	98.1
100.0	99.3	98.1	94.0	99.5
100.0	99.7	99.1	97.2	99.7
100.0	100.0	100.0	100.0	100.0

the other two. Note that while distance from the straight line of equal percentages is "bad" for incomes, it is "good" for tax burdens. And since distance in this connection is a function of slope, it is good to have the slope of the tax burden line less than that for both equal percentages and incomes received.

The final comparison to be made is that of the state and local burden in New York compared with that in Illinois. Here the distribution of the tax burden depends very much upon the shifting assumptions used. Illinois had a sales tax in 1936, but the state of New York did not. Therefore, if we accept the assumptions of Series I that the sales tax is passed entirely on to the consumer, the burden upon low income groups in Illinois is obvoiusly higher than in New York. If, however, we assume that half of this tax is borne by the merchant (Series II), then the middle income group is hit harder and lower income group gets off relatively easier. Under Series III one-fourth of the tax is assumed to be shifted back to the producer and this hits the low income farmer, since the Illinois sales tax falls upon retail foodstuffs as well as other merchandise. Finally, if one-fourth the land tax is shifted to the final consumer and another fourth borne by the taxpayer while only one-half is capitalized, then the relative burden upon the lower classes is greater in New York where the property tax brings a greater percentage of total state income than in Illinois.

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THE DETERMINATION OF MINIMUM WAGE RATES[1]

Many workers are now protected by federal and state minimum wage laws. The criteria to be followed in determining rates under these laws leave much to personal discretion. Three criteria are provided in the state laws: the minimum necessary for health, the value of services rendered and the rates prevailing for work of comparable character. Yet the complexities of the problem make the search for any definite and simple criteria fruitless. The best guide to follow in setting rates is probably the test of experience. Some statistical investigations of the effects of state minimum wage laws have already been made. Where minimum rates are set well below the median value of wages already prevailing in an industry, few adjustments in employment conditions are occasioned. Where rates approximate or exceed this level, important adjustments occur. Minimum wage rates placed at this high a level may injure the very groups which these laws are designed to aid.

Since validation of the Washington Minimum Wage law by the Supreme Court in March, 1937, activity in this field has been renewed on a broad front. Today twenty-six states, as well as the District of Columbia, Puerto Rico and Alaska, have such legislation; and the federal government, with the enactment of the Fair Labor Standards act, has gained similar powers over industries engaged in interstate commerce or in the production of goods for such commerce. The state laws, except in the case of Connecticut, apply only to women and minors; already about a million women and girls are working under minimum wage orders or flat rate laws. Approximately four million workers, or well over a third of all employed women and children, will receive similar protection when full effect is given to legislation now on the books.[2]

Under the federal law, on the other hand, men as well as women and minors are included, so that many millions of additional workers are covered by its terms. The most recent estimate of the Wage and Hour Division puts the number at approximately 12,600,000.[3] Further minimum wage protection is provided by the Walsh-Healey Public Contracts act, enacted in June, 1936. This Act requires firms accepting contracts with agencies of the federal government for amounts above $10,000 to meet certain maximum hour standards specified in the law and such minimum wage standards as the Secretary of Labor may announce. The industries now covered by contracts of this sort employ nearly five million workers.[4]

I

The central problem in the administration of this broad program is the determination of minimum rates of wages for a wide variety of industries

[1] This paper was written in connection with a seminar given by Dr. Leo Wolman.

[2] Women's Bureau, U. S. Dept. of Labor, *State Minimum Wage Laws and Orders*, Bull. 167 (1939), p. 2. In 29 state legislatures meeting in 1939, wage and hour bills patterned on the federal statute were introduced. In no case did these bills become law.

[3] Wage and Hour Division, U. S. Dept. of Labor, Release of Oct. 23, 1939.

[4] Public Contracts Division, U. S. Dept. of Labor, Release of Oct. 9, 1938.

throughout the country. In three of the states the original law specifies what the bottom floor to wages shall be. In the other twenty-three, however, provision is made for the appointment of wage boards to study various industries and to recommend rates; on the basis of these recommendations the authorized state agencies issue their wage orders. Among the highest and lowest rates now in effect, oddly enough, are those to be found in Nevada and in Arkansas, two of the three states in which the minimum wages are incorporated in the enabling legislation. In May, 1937, Nevada adopted a minimum rate of $3 per day, while the Arkansas law, passed as long ago as March, 1915, established $1.25 per day as the minimum rate.[5] Wage rates in almost all of the other states lie within the limits of these two figures, their exact amount depending in part on the number of hours taken as the standard working week. A few minimum wage rates exceed 48 cents an hour, as in Oklahoma and the District of Columbia. The majority of the rates, however, fall within a range of 30 cents to 40 cents per hour for a working week of 40 to 48 hours. It is worth noting that about three-fourths of the rates under the state orders are above the 30 cent minimum now in effect under the Federal Wage and Hour law.

Thus far the state wage orders have generally applied to such strictly intra-state enterprises as laundries, cleaning and dyeing establishments, beauty parlors, hotels, restaurants and retail stores. In some instances orders have pertained to firms which ship goods across state lines; a New York minimum wage order, for example, has been issued for the confectionery industry, while Massachusetts has brought electrical equipment and other important manufacturing concerns under its law. Indeed, federal estimates show that about one-third of the million workers now protected by state minimum wage orders or flat rate laws are in industries classified as interstate in character.[6]

All industries coming within the purview of the federal legislation were immediately subject to the basic wage provision of 25 cents per hour for a 44 hour week as specified in the law. A year later, on October 24, 1939, the minimum wage rate was raised to 30 cents per hour; and after the seventh year (*i.e.*, October, 1945) it is to be raised to 40 cents. The maximum weekly hour schedule was reduced to 42 hours after the first year; it is to be lowered again, this time to 40 hours, after the law has been in effect two years.[7] The knotty problem of determining special rates for certain industries still remains, however, since the Administrator of the federal law has been granted the power to appoint industry committees and to collaborate with them in setting minimum wage rates at any figure

[5] Under the Arkansas law, the minimum rate may be revised, but to date no change has been made.

[6] Women's Bureau, U. S. Dept. of Labor, unpublished data.

[7] Payment for overtime is to be 1½ times the regular hourly rate.

above the flat rate contained in the law, but not exceeding 40 cents per hour.[8]

Under these flexible provisions the legislation directs that rates may be set as near to the upper 40-cent–40-hour limit as economic conditions warrant but not so high as to occasion any important curtailment of employment. Different rates may be established for various geographical classifications within an industry if they do not give a competitive advantage to any employer group within the trade. The law provides that where such classifications are made, regional differences and competitive conditions as affected by transportation, living and production costs, are to be taken into account. Minimum wage rates are also to be set with reference to the comparable rates specified in collective labor agreements and with reference to the level of wages paid for similar work in the surrounding locality. These guides to policy give the Administrator and the industry committees appointed by him considerable latitude in determining particular minimum wage and maximum hour rates.

Nine committees have thus far been appointed, all of them in various branches of the textile and apparel trades. The rates recommended by these committees to the Administrator range from 30 cents to 40 cents an hour. In no case to date have geographical differentials been recommended except in reference to Puerto Rican firms in the apparel trade. A number of southern textile manufacturers, however, vigorously requested such differentials for their industry. Only two wage orders are in effect at the time this is being written, the first in the hosiery industry, the second in the textile industry.

Considerable discretion is also granted to those entrusted with carrying out the Walsh-Healey act. True, working hour standards are specified in the Act itself. No firm can secure a contract with the federal government under this law that employs a worker more than 8 hours in any one day or 40 hours in any one week. But the determination of wage standards is largely left in the hands of the Secretary of Labor. The law only directs that wage standards incorporated in public contracts are not to be below the minimum prevailing for similar work in the same locality. Minimum wage rates issued under the Walsh-Healey act to date range from 32½ cents to 67½ cents per hour.

II

As in the case of the federal legislation, the criteria contained in the state laws are open to widely varying interpretations. Almost all of the states having minimum wage laws have established as one criterion the

[8] After 1945, the wage orders of the industry committees are to expire; new orders may be issued after this date, establishing special rates at any level between 30 cents and 40 cents per hour but only under circumstances where the Administrator finds such action necessary to prevent substantial reductions in employment.

minimum amount necessary to provide adequate maintenance and to protect health. In no instance, however, has a wage order met this standard. A study by the United States Department of Labor shows that during the years 1913 to 1927 none of the minimum wage rates, when first announced, quite equalled the official cost of living figures. Furthermore, subsequent price increases during this fourteen-year period made the gaps between standard and practice even wider.[9] Regarding the wage orders of the last few years the cost-of-living standard seems to be a more distant goal than ever; in connection with the state minimum wage orders where data are available, it appears that a considerable majority fall far short of the "adequate maintenance" ideal. In the cost-of-living survey of the New York State Department of Labor it was estimated that a wage of about $1,200 per year was the minimum necessary for health and decency in the case of a woman living alone in New York City. But the minimum wage order issued for the laundry industry, for example, granted a wage of only about $700 to a worker steadily employed throughout the year.[10] In instances of this sort it is clear that the cost of living standard carries little weight and that, in the actual determination of rates, chief attention is given to other considerations.

Another criterion included in twelve state laws, partly to meet constitutional objections, requires that wage boards or administrators in setting particular rates shall take account of the value of the services rendered. Six of these state laws also contain the cost-of-living standard. But unlike the latter, this criterion directs attention to the position of the employer as well as to that of the worker and gives explicit recognition to the fact that from the former's point of view wages are a cost of doing business. Here again, however, is a guide to policy subject to a wide variety of interpretations. In an effort to give it content some states have taken into consideration such factors as the type of work performed, the relation between wage levels of various groups within the industry and the relation of wage costs to plant efficiency and to total costs. Still, considerable latitude remains for the exercise of personal judgment in determining what the minimum wage and maximum hour rates in specific instances shall be.

A somewhat more definite guide to policy contained in eleven state laws directs attention to the wages paid for work of comparable character performed by workers in the same industry or in other industries. Under its terms the introduction of minimum wage safeguards would be called for if the wages of certain unskilled workers, in the canning industry, for example, were found to be below the wages of other unskilled

[9] Women's Bureau, U. S. Dept. of Labor, *The Development of Minimum Wage Laws in the U. S., 1912 to 1927*, Bull. 69 (1928), p. 155.

[10] New York State Dept. of Labor, *Adequate Maintenance for Women Workers in New York State*, Jan., 1938, p. 22, and *Wage Order for the Laundry Industry*, March, 1938.

workers in the surrounding locality. Yet even the definition of this standard is difficult and the problem of measurement is not an easy one. Just what is meant by the phrase "work of comparable character" is by no means clear in every case. Nor is it easy to compare the wage levels of different groups of workers if consideration is given to the weekly or monthly earnings actually received and to other differentiating circumstances.

It is open to doubt, moreover, how much weight this criterion deserves. Thus, even though the wages of a certain group of workers are found to be equal to those paid to others doing similar work elsewhere, the surrounding circumstances may still warrant an increase; for it is entirely possible that the same influences that have reduced the wages of the first group to unduly low levels have likewise reduced the wages of these other workers to the same extent. On the other hand, this guide to policy would be carried too far if, regardless of other considerations, the wages of a particular low paid group were raised to the level that prevailed for workers engaged in comparable work elsewhere; under such circumstances employers might more than offset the rise in hourly rates by reductions in the weekly or monthly pay checks of their workers.

III

These considerations indicate some of the complexities of the problem and suggest that no single formula will prove to be an adequate guide to policy. Differences in the positions of working groups and of employers, differences in the characteristics of industries, changes in the level of business activity and in business prospects—all these considerations and many others are pertinent to the problem and make the search for any simple criterion or set of criteria fruitless. As a matter of necessity, therefore, the guideposts to policy reviewed above can do no more than specify the general limits within which particular decisions are to fall. Within these broad limits attention must be paid to a wide variety of factors before specific rates of minimum wages and maximum hours can be set. Actually, the task still remains of formulating an approach to the administration of minimum wage laws that will conform to the accepted standards of policy and at the same time will provide a means for coping with the multiplicity of factors involved.

It is apparent from the foregoing that the problems involved in setting minimum wage rates are highly dynamic in character. It is important, then, to work out some sort of reconciliation between the need for flexibility in minimum wage programs and their traditional rôle of guaranteeing a fixed wage to the lowest paid groups. Changes in rates would, of course, be necessary to offset movements in the general price level. Rate revisions to adjust for fluctuations in the volume of business activity and for changes in the circumstances under which competing employers operate would also

be required. Finally, aside from any changes of this sort, outright errors in setting rates would probably occur. Even under conditions of relative stability, calculations of the effects of particular minimum rates on employment conditions might easily go astray. Here again, revisions would be in order. In other words, the important issue is not whether rate determinations will have to be changed, but whether the particular rates requiring change can be quickly detected and the necessary adjustments made. The problem of revising minimum wage and hour rates, indeed, appears to be of only somewhat less importance than the problem of setting rates in the first instance.

To formulate an approach to the problem of determining rates under minimum wage laws which will make it possible to take account of the complexity of factors involved and which will also be useful in indicating where adjustments in rates are called for, is an exacting task. The approach most likely to meet these two requirements successfully is the pragmatic one. Under this view the chief guide to policy, wherever possible, would be the test of experience. The traditional goals of minimum wage legislation would be sought but not at the cost of serious disturbances in the markets for labor. An important objective would be, therefore, an understanding of the various circumstances under which particular wage and hour rates occasion dislocations in industry. In method, this approach would rely chiefly on the statistical inquiry. Data would be gathered, for example, on the movement of wages following the application of particular rate decisions, the number and type of workers subsequently released from employment and the changes in the earnings of the employers involved.

As our knowledge broadened along these lines, substantial aid would be given in determining new rates and in revising rates already in effect. The infinite variety of circumstances surrounding the application of specific minimum rates would make it difficult, of course, to interpret findings; differences in business conditions and in the positions of individual concerns would make it especially hazardous to relate such findings to the determination of new rates. In the case of the federal law the varying circumstances affecting competing employers in different areas would make the task a particularly difficult one. Yet there appears to be no other approach to the problem which holds out more hope for success.

In any effort to reconcile the need for flexibility in minimum wage rates with their traditional rôle of guaranteeing a basic wage to the lowest paid workers, statistical inquiries of this sort would play a very useful part. On the one hand, such investigations would help reveal cost of living changes that might call for readjustments in the minimum rates. On the other hand, they would throw light on changes in the volume of employment and in the earnings of particular worker groups that might warrant revision of wage orders already issued. Students of minimum wage legislation, whether

friend or foe, would welcome inquiries of this sort. Wage law administrators, whether they felt that workers were receiving too little protection or too much, would be interested in their findings.

IV

Happily, surveys conducted by certain government agencies have already made some contributions along these lines. The labor departments of at least fourteen states have collected data on employment conditions existing before and after the application of specific minimum wage orders; and the Women's Bureau of the United States Department of Labor has made investigations of a somewhat broader scope.[11] In view of the limited coverage of these surveys, their findings only suggest certain hypotheses which later studies may affirm or deny. Reference to a few of the conclusions which can be drawn from these investigations, however, will at least throw light on the approach to the problem of determining minimum wage rates suggested above.

In reviewing these surveys it is useful to consider the relation of minimum rates established by wage orders to the level of wages prevailing in the industries concerned. When placed at a point well below the median value of wages, minimum wage rates apparently have had few important effects. In Kansas and Minnesota, for example, most of the minimum rates issued during the years 1918-1922 were 30 to 50 per cent below median earnings. Subsequent investigations showed few adjustments occurred in these industries. True, the earnings of workers in the lowest quarter of the wage-earning groups increased somewhat following the application of the minimum wage orders. On the other hand, only a few violations were reported, suggesting that employers experienced little difficulty in conforming with the law. Furthermore, the wages of the higher paid groups were not visibly affected by these minimum wage decrees, suggesting again that if disturbances did occur, they were not of a far-reaching character.[12]

Under circumstances where minimum rates have approximated median wages already in effect, however, definite adjustments seem to have been inescapable. During the war years and immediately after, California estab-

[11] The investigations on which this study is based were made by the labor departments of the following states (in addition to the District of Columbia): Arkansas, California, Illinois, Indiana, Kansas, Massachusetts, Minnesota, New Hampshire, New York, Ohio, Oregon, Rhode Island, Washington and Wisconsin. Except in a few instances they fall either in the period 1915-1925 or in the period 1933-1937; in scope they are generally limited to the laundry, mercantile and manufacturing industries. Investigations by the Women's Bureau of the U. S. Dept. of Labor in the canning industry in California and New York, in the boot and shoe industry in Massachusetts and twelve other states, in the laundry industry in New York and Pennsylvania and in the dry-cleaning and dyeing industry in Ohio and Indiana have also been utilized.

[12] Women's Bureau, U. S. Dept. of Labor, *The Development of Minimum Wage Laws in the U. S., 1912 to 1927*, Bull. 61 (1928), pp. 344-345, 363-364.

lished minimum wage rates only slightly below prevailing median rates and earnings; the District of Columbia during this period specified rates somewhat above this level. Following the announcement of wage orders in both of these jurisdictions, wage figures for workers in the lowest quarter earning group showed a marked rise. Many employers, moreover, were unable or unwilling to comply with the terms of the wage orders, for at least a fourth of the workers in these two areas were subsequently found to be receiving pay below the specified minimum. The movement of wage rates and earnings of the higher paid groups also bears out the contention that minimum rates, when set at this level, have occasioned important adjustments. Median wages both in California and the District of Columbia showed immediate increases wherever minimum wage orders were put into effect; and, during the years 1914 to 1925, these median rates mounted much more rapidly than the comparable rates in states having no minimum wage laws. Even the wages of workers in the highest quarter of the earning groups were apparently affected by the minimum wage orders, for in most cases wage rates and earnings of these workers moved in proportion to changes in the minimum wage rates, in contrast to their erratic behavior in Kansas and Minnesota where much lower minima had been established.[13]

Surveys of more recent experience point to the same conclusions. Investigations by state labor departments and the United States Women's Bureau have been made in seven states where the minimum rates have approximated or exceeded the median rates of pay prevailing in the several industries for which wage orders were issued.[14] All show that the wage rates and earnings of the lowest paid workers, following the wage orders, rose substantially and that median wages increased in about the same proportion. Moreover, adjustments made subsequent to the announcement of the minimum wage orders involved the highest paid groups as well. Wherever the government surveys secured data on this aspect of the problem it was found that the wages of the highest quarter earning group had increased in sympathy with the general rise in rates.

Where minimum rates have been set at this level, then, employers have generally faced important changes in their labor costs. Whether these changes have involved serious dislocations, however, is another matter and far more difficult to ascertain. One test would be the number and type of workers subsequently released from employment. Where minimum wage rates have approximated or exceeded the median level of rates already prevailing, no significant displacement of women workers has thus far been

[13] Women's Bureau, U. S. Dept. of Labor, *ibid.*, pp. 337-343. In the case of the District of Columbia, the data have only a limited coverage since a court suit, testing the law's constitutionality, was introduced in 1921.

[14] Surveys of selected industries, to which reference is made here, were conducted in California and Massachusetts for the years 1920-1930 and in Illinois, New Hampshire, New York, Ohio and Rhode Island for the years since 1933.

found.[15] A study of employment changes in California between 1920 and 1930 shows that in industries covered by minimum wage orders the proportion of women workers to the total grew more rapidly than in the same industries for the country as a whole.[16] In a sample study of 14 New York laundries and 11 Pennsylvania laundries it was found that the proportion of women workers during the period 1933 to 1935 increased in the former state where a wage order was in effect and actually declined somewhat in Pennsylvania where there was no minimum wage law.[17] In Ohio, wage orders established minimum rates substantially above the median level already in effect, but even here surveys covering the period 1934 to 1937 show no noticeable displacement of women workers.[18]

But little really is known about this phase of the problem and subsequent studies may drastically alter these conclusions. Surveys of changes in employment, in company earnings and in the rate of mortality of concerns brought under minimum wage laws may throw a different light on the circumstances under which minimum wage orders occasion serious disturbance. Similarly, if account were taken of influences associated with the varying phases of the business cycle or with such differences between industries as the relative importance of labor costs, perhaps the picture would be considerably altered.

Our knowledge of the effects of rates established under the Federal Wage and Hour law is even more limited. In this connection, of course, sufficient time has not yet elapsed to make the necessary inquiries. Federal authorities, for example, estimated that the wages of almost 700,000 workers were raised in October, 1939, when the minimum wage rate under the federal law was increased from 25 cents to 30 cents an hour; similarly, the reduction in maximum hours from 44 to 42 hours per week was said to have affected the hour schedules of about 2,400,000 workers.[19] These estimates, however, were nothing more than predictions of probable effects; it remains to be seen how accurate they were.

V

From the foregoing review of studies concerning the effects of minimum wage legislation, these tentative conclusions may be drawn. Where minimum wage rates are set as low as 30 per cent below the median level of wages already prevailing in the industries concerned, no important adjustments in employment conditions are likely to occur. On the other hand, where minimum rates approximate median wages, some far-reaching ad-

[15] It is important to note that these surveys cover years of general business expansion.
[16] Women's Bureau, U. S. Dept. of Labor, *The Benefits of Minimum Wage Legislation*, March, 1937, p. 8.
[17] Women's Bureau, U. S. Dept. of Labor, *ibid.*, p. 11.
[18] Women's Bureau, U. S. Dept. of Labor, unpublished data.
[19] Wage and Hour Division, U. S. Dept. of Labor, Release of Oct. 23, 1939.

justments in the labor costs of individual employers may be expected to follow. Where minimum rates are placed above this level, the likelihood of serious disturbances is increased; indeed, it would not be surprising to find the application of minimum wage laws under these circumstances serving to defeat the very purpose for which the laws were originally enacted. It remains for further investigations to test and to amplify these conclusions. Amid the difficulties and uncertainties besetting the administration of minimum wage programs, it is apparent that such investigations can play a helpful part. It is to be hoped, therefore, that governmental authorities will not be backward in undertaking additional statistical inquiries along the lines of those already completed.

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CONCENTRATION OF JOINT-STOCK ENTERPRISE IN ITALY

In terms of absolute and relative proprietorship, joint-stock company enterprise appears to have become increasingly important in the Italian economy since 1914. More significant is a marked concentration of corporate wealth. In 1922 the 100 largest non-financial corporations owned less than a third of all non-financial corporate assets; by 1936 the 100 largest firms owned almost half of such assets. The trend toward concentration has been even more pronounced in the field of banking. It is to be noted, however, that political centralization of economic controls in recent years has come to overshadow the significance of authority resting on formal ownership.

In one of his leading speeches on the Fascist Corporate State, Premier Benito Mussolini undertook to give his listeners "a broad outline of the history of capitalism during the past century."[1] This required a definition:

> Capitalism . . . is a specific mode of production, a system of industrial production. Capitalism in its most highly developed form is a mode of mass production for mass consumption, financed in mass through the national and international issue of joint-stock capital.

The touchstone of "advanced capitalism," then, is large-scale industrial and financial joint-stock enterprise. In the course of his address, the Duce asked: "Is Italy a capitalistic country?" and replied:

> If by capitalism is meant that complex of usages, customs, technical progress now common to all countries, we can say that Italy too is a capitalistic country. But if we go more deeply into the matter and examine the situation from a statistical standpoint . . . we then secure data that enable us to say that Italy is not a capitalistic nation in the current sense of the word.

He cited statistics on the economic structure of the Italian population, indicating a *numerical* predominance of agricultural and small industrial enterprises. "You see at once from this survey how varied and complex is the Italian economy, and why it cannot be identified with any one type; especially so as the 523,000 manufacturers are almost all at the head of small or medium-sized concerns." That is, in Mussolini's opinion Italy is not "capitalistic" because small-scale (and presumably non-corporate) enterprise is numerically outstanding in its business-industrial system.

Unfortunately, the paucity of data on national wealth and income—and, furthermore, on the employment and production of corporate and non-corporate enterprises—makes it difficult to throw a direct and completely revealing light on the significance of joint-stock companies in the Italian economy.[2] The available information, however, indicates that large-scale corporate enterprise is by no means unimportant. Certainly, in

[1] Speech to the National Council of Corporations, November 14, 1933. See Benito Mussolini, *The Corporate State*, Florence, 1936, pp. 11, 18-19.

[2] The terms "corporate" and "corporation" are herein used as equivalent to "joint-stock" and "joint-stock company," not in their current Italian usage with reference to certain fascist institutions.

Mussolini's terms, Italy was more "capitalistic" in 1933 than in 1922, when he took office.

The number of joint-stock companies in Italy has risen as follows: 1913—3,069; 1922—6,850; 1927—13,201; 1932—18,518; 1937—20,018.[3] According to the statistician Corrado Gini, the aggregate national wealth (in current lire) was 111 billions in 1914, and 550 billions in 1925.[4] This represents a rise of about 400 per cent. On the other hand, the total nominal "share capital" of the corporations increased from 5.3 billions in 1914 to 36.5 billions in 1925—that is, by about 600 per cent.[5] During 1927-1934 Italy passed through a severe depression. No comparable estimates of changes in national wealth during this period are available, but it is altogether reasonable to infer that it was smaller in 1934 than in 1925.[6] Yet corporation capital was greater: it rose from 36.5 billion lire in 1925 to 52.3 billion in 1930, contracting to 44.3 billion in 1934.

How large a proportion of the national wealth is controlled by corporate business enterprise? This question cannot be answered with precision, inasmuch as the total of company assets includes an indeterminate volume of inter-corporate obligations. But it is evident that such control has expanded considerably since the onset of the World War. In 1914, some 808 non-financial corporations reported their assets and liabilities to the Italian Association of Joint-Stock Companies. Their total capital was 2,892.5 million lire—which was approximately 60 per cent of the capital of *all* non-financial corporations, reporting and non-reporting—and their total gross assets were 6,126.1 million lire.[7] The assets of non-reporting

[3] Istituto Centrale di Statistica . . . , *Annuario Statistico Italiano*, various issues, 1914-1938 (Rome, 1914-1938).

[4] Constantine E. McGuire, *Italy's International Economic Position* (New York, 1927), pp. 445, 451.

[5] Istituto Centrale di Statistica, *op. cit.* Gini estimates that the real wealth was approximately the same in the two years. That is, the 400 per cent rise was almost entirely in money terms. To what degree did corporation capital reflect the depreciation of the lira? It seems unlikely that upward adjustments in nominal capital *preceded* advances in the index of living costs (used by Gini as the deflating factor).

[6] That is, in current lire. It is possible that the national wealth was smaller even in "real" terms. The wholesale price index (1913 = 100) fell continuously from an average of 646 in 1925 to 276 in 1934; the general index of industrial production (1922 = 100) rose from 156.6 in 1925 to 201.8 in 1929, declined to 145.9 in 1932, then rose to 182.2 in 1934; the general index of agricultural production (1922 = 100) rose with some interruptions from 129.1 in 1925 to 147.8 in 1934; the index of railway freight traffic (1922 = 100) rose from 148.3 in 1925 to 154.2 in 1929, then fell to 85.4 in 1934; the number of persons totally unemployed rose continually from 110,298 in 1925 to 1,018,953 in 1933, declining to 963,677 in 1934. *Cf.* W. G. Welk, *Fascist Economic Policy* (Cambridge, 1938), *passim*.

[7] Associazione fra le Società Italiane per azioni, *Notizie Statistiche, 1922* (Rome, 1923). All data on "reporting" companies are computed from this and subsequent issues of the *Notizie Statistiche*. Financial companies—banks, insurance firms, etc.—have been excluded from the present estimate, in order to minimize duplication of assets.

companies are unknown; however, sampling tests suggest that the capital-assets ratio of reporting companies is about the same as that of non-reporting companies.[8] Assuming this to be correct, it appears that gross assets of all non-financial companies in 1914 totalled about 11.1 billion lire. This represents 10 per cent of the national wealth in 1914. A similar computation indicates that in 1925 non-financial gross assets represented about 16 per cent of the national wealth. By 1933, the gross assets of reporting non-financial companies were 29 per cent greater than in 1925—this in the face of reduced national wealth. A conjecture that 20-25 per cent of the national wealth in 1933 was owned by joint-stock companies does not seem to be extravagant. Oblique as is such information on national and corporate wealth, there can be little doubt that there has been an impressive growth, both absolutely and relatively, of corporate enterprise in Italy during the past twenty-five years.

More significant—and also more pertinent to the Duce's conception of capitalism—is a marked concentration of corporate wealth under the command of a few large firms. This may be measured in terms of the capital and assets of the 100 largest[9] corporations in 1922, 1926, 1933, and 1936. These 100 companies held the following percentages of the total capital and gross assets of all non-financial corporations reporting to the Association:[10]

Year	*Percentage of reported non-financial capital*	*Percentage of reported non-financial assets*
1922	44.1	41.6
1926	45.2	46.1
1933	50.7	53.7
1936	53.3	55.8

In accordance with the method of computation outlined above,[11] the percentages of total capital and gross assets of *all* non-financial corporations, reporting and non-reporting, which were held by the 100 largest companies may be estimated as:

[8] On the assumption that non-reporting companies are typically small (in terms of capital), a sample of reporting companies with small capital was examined in respect of the capital-assets ratio.

[9] "Largest" in respect of gross assets.

[10] In the two fiscal years 1935 and 1936, the reported net profits of corporations were far higher than in any of the preceding years. Yet 99.7 per cent of the companies earned only one-third of this revenue. The remainder went to 56 great corporations, which controlled about 40 per cent of all reported capital. Istituto Centrale di Statistico, *op. cit.*, 1937, 1938.

[11] *Cf.* Note 8. It may be observed that in 1936 the capital of reporting non-financial companies amounted to about 83 per cent of the capital of all non-financial corporations

Year	*Percentage of all non-financial capital*	*Percentage of all non-financial assets*
1922	33.2	31.5
1926	36.1	35.4
1933	38.6	40.8
1936	44.7	47.0

Large business enterprises are of course more important in some fields than in others. In 1936 the 100 biggest non-financial corporations were distributed in various industries as follows: electric power, 30; metallurgy, 9; chemicals, 8; textiles, 7; machinery, 7; telephone service, 5; shipping, 4; automobiles, 3; shipbuilding, 3; construction and building materials, 3; sugar refining, 3; real estate, 3; petroleum, 2; water, 2; railways, 2; gas, 2; rubber, 2; matches, 1; paper, 1; cable, 1; distilling, 1; retail merchandising, 1. Except for the textile (other than rayon), water, railway, real estate, and merchandising firms, these companies seem to be dominant in their respective fields, at least as regards ownership of assets.[12] On the other hand, corporate enterprise of even moderate size is apparently quite unimportant in the fishing, wood-working, food-processing, and clothing industries, and in the retail trades.[13]

There has been a similar trend in the financial field. In each of the four years since 1921, the three leading commercial banks held the following percentages of all reported banking capital, gross assets, and deposits:[14]

Year	*Percentage of reported banking capital*	*Percentage of reported banking assets*	*Percentage of reported deposits*
1922	24.0	41.9	32.9
1926	37.5	44.8	26.4
1933	49.2	64.4	44.8
1936	56.1	67.1	50.4

The total number of reporting banks declined: 1922—228; 1926—250; 1933—109; 1936—94.

[12] Eight great companies owned 54 per cent of the assets held by all the 160 electric-power firms; 4 of the 83 metallurgical companies owned 57 per cent of the assets; 7 of the 195 mechanical companies owned 51 per cent of the assets; 2 of the 46 automobile companies owned 57 per cent of the assets; 2 of the 15 sugar-refining companies owned 65 per cent of the assets; 1 of the 13 rayon companies owned 64 per cent of the assets; 1 of the 9 rubber companies owned 73 per cent of the assets. Associazione . . . , *op. cit.*

[13] In 1927, these industries and trades employed about 40-45 per cent of all industrial and commercial workers; moreover, about 75 per cent of such workers were connected with firms employing ten or fewer persons. More recent data are not yet available. *Annuario Statistico Italiano, 1937*, pp. 68, 70.

[14] Associazione . . . , *op. cit.*

On levels other than corporate ownership—that is, on personal and bureaucratic levels—business controls appear to have been concentrated even further within the past fifteen years. Discussion of the forces involved in economic centralization in Italy is beyond the scope of this paper.[15] It may be noted, however, that the cumulative political integration of economic authority in recent years has come to overshadow the significance of control based on formal proprietorship.

Large corporations, then, have played an increasingly prominent rôle in Italian economic life since the advent of fascism. By 1936, 100 great manufacturing, communications, and trading companies—a mere half of one per cent of all joint-stock firms—owned almost half of all non-financial corporate assets. Concentration was even more pronounced in the field of banking. Evidently the fascist environment has not been uncongenial to the growth of large-scale business organizations.

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[15] See the writer's *The Corporate State in Action* (New York, Oxford Univ. Press, 1939).

THE RELATION OF AMERICAN FOREIGN-TRADE POLICY TO NEW DEAL DOMESTIC POLICY

Paper presented at a Round Table Conference of the American Economic Association, December 27, 1939.

The comparison of American foreign-trade policy and New Deal domestic policy is only superficially a question of economic policy in the narrow sense. Economists tend to approach these problems as if they were questions of trade barriers in the international field and of price rigidity and monopolistic tendencies in the domestic field. Essentially autarchic tendencies in foreign trade and monopolistic tendencies in domestic markets are political responses to a shift in the social framework of the market. Traditional economics tends to assume the constancy of this social framework, and then proceeds to a refinement of its analysis within the postulated constancy. Present problems arise because the framework of custom, values and law is shifting. Economics has become increasingly exact in its formulations, and at the same time increasingly irrelevant to the social process it claims to study. The essential problems today are: Is the social framework still a constant? and if not, what difference does it make in the discussion of relevant policy? Until these questions are explicitly faced, divergent policies in international and domestic markets will be argued with heat but without light, because the traditional postulate of the economist—the constancy of the social framework—eliminates the area in which the real problems arise.

A discussion of the relation of American foreign-trade policy to New Deal domestic policy must be based upon a clear understanding of the nature of the two policies which are in comparison.

There is little difficulty in a statement of our present foreign-trade policy.[1] Essentially it is designed to broaden trade by a process of negotiation of trade agreements with other countries to reduce trade barriers. The objectives are both economic and political. No discussion of the economic objectives is required before an audience of professional economists—there is no proposal in the field of economic policy for which so nearly unanimous support can be found in the profession. The political objective—the development of an atmosphere in international relations in which peaceful intercourse between nations becomes somewhat more probable or possible—is open to more serious doubt. Few will question the objective itself; but qualified students of international relations might well wonder whether an expansion of international economic intercourse which was not accompanied by a strengthening of the international political and juridical framework in which the trade relations will develop, might not rather easily promote a variety of international contact that might lead to international conflict, if no provisions were made at the same time for mechanisms and institutions of adjustment which would render such conflict harmless from the standpoint of the preservation of peace. Mr. Raymond Moley defined "the twin objectives of the New Deal" as "the application of intelligence and goodwill to the solution of our domestic problems, and the avoidance of foreign entanglements."[2] A program to reduce trade bar-

[1] Francis B. Sayre, *The Way Forward* (New York, Macmillan, 1939); W. S. Culbertson, *Reciprocity* (New York, Whittlesey House, 1937); R. L. Buell, *The Hull Trade Program and the American System* (New York, Foreign Policy Association, 1939).

[2] *Sat. Eve. Post,* Aug. 26, 1939.

riers that was accompanied by a simultaneous policy of "avoidance of foreign entanglements" was clearly destined to lead to vigorous discussion and dissension within the initiating group as soon as matters were thought through their elementary stages. We need not be surprised to read in Mr. Moley's memoirs that the secretary of state who negotiated the trade agreements "personified the philosophical opposition to New Deal policies."[3] No one who represented the nationalist alternatives of N.R.A. and A.A.A. could possibly have reasoned otherwise. After the failure of N.R.A. the effort on the part of some of the administration advisers to restore competitive controls by a re-invigoration of anti-monopolist measures, was destined to widen this division.

It is harder to characterize the New Deal domestic policies than the present foreign-trade policy. It may well be questioned whether a domestic policy exists—or ever existed. Max Lerner, who may be assumed to take a fairly sympathetic attitude toward the congeries of interests—ideological, material and otherwise—that are usually described in political shorthand as "the New Deal," recognizes at least eight schools of economic thought among its advisers;[4] but a professional economist might well question this observer's competence to analyze such problems, for he is capable of such economic monstrosities as the statement that "economists still cling to the theory of comparative costs, although the world is covered with tariffs,"[5] which makes about as much sense as a statement that physicists still talk of gravitation although the sky is full of airplanes.

Perhaps the best way to characterize the domestic economic policy of recent years is to describe it as piecemeal protection of a succession of producers' interests. Formerly—in the case of the Interstate Commerce Commission and of the Federal Trade Commission, for instance—the object of public policy was the protection of the consumer. In view of the general purpose underlying such regulation, it could not so easily deteriorate into the protection of special groups. The new regulatory devices have not been designed to hold the scales even, but they have been deliberately contrived to protect specified producers' interests. The agricultural controls are administered to protect the farmer. The wages-and-hours administration is supposed to raise wages. The Wagner act machinery is charged with the protection of collective bargaining. Even the I.C.C. has degenerated into an agency to protect railroad labor and railroad bondholders. In other words, the special-interest principle of the protective tariff has been generalized. In so far as consumers' interests are envisaged at all, they come in indirectly through the supposed reverberations of the protected producers.

[3] *Sat. Eve. Post,* July 8, 1939, p. 71. See also R. Moley, *After Seven Years* (New York, Harper, 1939). For similar argument, see Book 1 of Jerome Frank, *Save America First.* (New York, Harper, 1938).

[4] *It Is Later Than You Think* (New York, Viking, 1939), pp. 156-8.

[5] *Ibid.,* p. 11.

interesting results, and it is also to be hoped that it would help to bring some

This gives us a good point of departure for our comparison of foreign trade and domestic economic policy. If the general welfare should be the purpose underlying economic policy, we might well ask whether that general interest should not be directly envisaged instead of merely assuming that we can promote it most effectively by the indirect method of protection of one producers' group after another. Isolated policies can best be tested for their effect on society as a whole by an investigation of their consequences to the consumer. By a curious twist of history our present foreign-trade policy is the only major exception to the general trend of determining national policy by concessions to specific producer groups. The present trade agreements program submits every special interest plea to the test of its compatibility with a general interest of the economy as a whole. In America tariffs were the first major curb on freedom of enterprise. Historically, the movement toward curtailment, subsidy, and monopoly took much of its impetus from the drift toward "protection" of national producers in a world market. From this standpoint the effort to "free" trade from some of its worst tariff shackles seems to be the last effective defense of free enterprise and free markets.

The significance of the trade agreements policy as a measure to insure the flexibility and even the viability of our free economic institutions is generally overlooked. Too frequently attention is restricted to the areas in our economy that are immediately involved in foreign trade and no significance is attached to the mis-direction of economic energy which is prevented by the potential competition of world markets that emerges as a possibility as soon as certain limits imposed by trade barriers are exceeded. The mere fact that free contact and comparison with a world market is maintained with economic calculation continuously devoted to the possibility of entering it, or of switching from one external market to another, has—as Professor Wilhelm Röpke has recently expressed it—a value for the rational functioning of national economics which no juggling of statistical data can possibly elucidate or obscure.

Whereas the *actual* world trade . . . works like a hormone or a vitamin, the biological value of which is quite out of proportion to the active quantity, the *potential* world trade considered here may be compared to a catalyst in a chemical process which does not enter into the compound at all while being the *sine qua non* of the process itself. It is acting, like the British fleet, "in being," and what this means will be discovered only when it can act no more.

The *morphological importance of potential world trade,* it must be admitted, is a rather vaporous subject which it is very difficult to handle without drifting into empty speculation; but that it is here and that it deserves the greatest emphasis cannot possibly be denied either. It would be easy, moreover, to show that it is really nothing more than a special case of a general phenomenon pervading the whole economic process and to name examples in other fields where it has been much better recognized than in this special field of economic theory. It seems certain that a careful and sober analysis of this subject would yield a number of

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interesting results, and it is also to be hoped that it would help to bring some fresh air into the somewhat stuffy atmosphere of the traditional theory of international trade, which is still too much centering around the hoary quantitative-mechanical notions of the classical school. In such an analysis much stress would have to be laid on the fact that the terms of "potential world trade" cover also all those concepts like "confidence," "expectation," "elasticity," "continuity" and "security" which are so much at the forefront of present-day economics. Especially worthy of consideration seems to be, in this context, the question of what the potentialities of world trade mean for the incentives to that private investment activity, at home and abroad, which plays such a conspicuous and well deserved rôle in contemporary economic thought as the prime condition of the optimum equilibrium of economic life.[6]

Relatively low foreign-trade figures in a free market may therefore go together with extremely great significance to the health of the economic structure as a whole; and, conversely, relatively high foreign-trade figures based on autarchical "bargaining" may simply conceal the fundamental decay of world markets because they may represent a foreign extension of domestic economic controls rather than a growth of the interwoven structure of world economy. These are, of course, precisely the reasons why policies leading to the reduction of trade barriers are fought tooth and nail by the beneficiaries of the special interest policies that are now so widely prevalent throughout the world, and fought most eloquently by spokesmen for "free enterprise" who apparently suffer no intellectual indigestion from the simultaneous support of expansion and restriction of markets.

Thus far this paper has followed rather conventional lines. The topic assigned to me is a broad discussion of economic policy, however, and it gives me an opportunity to widen the area under study to include some factors that have convinced me that the analysis is valid but does not go far enough.[7] It is apparently true—as the old saw goes—that economists win all the arguments, and protectionists the elections, with the gratifying exception of the current Cordell Hull period and even there threatening political clouds obscure the horizon. In the current intellectual tradition this is usually dismissed with a sigh about the gullibility of the great unwashed, while we retire to the safe battlegrounds of the classroom smugly confident of the purity of our logic. The twin devils of "propaganda" and "ignorance" are under comfortable control in the ivory tower and here the election returns filter through a qualitative grading system. To a social scientist worthy of the name, this should, however, suggest that our fundamental hypothesis might be too limited for the scope of the problem—our logic may be as perfect as we think it to be but the framework in which we are applying it may be too narrow to lead us to practically significant results.

[6] W. Röpke, *Interim Report on International Economic Disintegration* (mimeographed).

[7] See my recent papers in *The Proceedings of the Institute for Administrative Officers of Higher Institutions*, vol. x, 1938 (Univ. of Chicago Press); and the *Proceedings of the Conference on the Problems of Higher Education*, 1939 (University of Illinois Press).

It may be quite as silly to discuss economic nationalism and its political accompaniments in terms of its economic irrationality, as it would be to treat insanity as a problem of crooked thinking to be cured by the teaching of logic.

For the past three centuries we have been able to take for granted the social framework in which we carried on our economic activity. We inherited our law and our religion—and "change" in such matters was slow, almost imperceptible. We inherited private property and the family system, as well as our attitudes toward our monetary institutions and the ethical foundation of contract. Our economic policy—as well as our economic thought—could be passive about such matters, although there was an awareness in the *political* economy of men like David Hume, Adam Smith and John Stuart Mill of the significance of these assumptions which is sadly lacking in contemporary "economics." Occasionally a particularly keen observer like De Tocqueville would draw attention to the fact that the loosening of political ties—which was his negative way of describing our economic and political freedom—was possible only if strong moral bonds continued to exist.

The strong moral bonds have not continued to exist—and this is the basic fact to emphasize in the current drift to authoritarian government. The feudal and religious code have gradually become too weak a bridge to carry the traffic—and the impersonal division of labor which was the main cause of the new productivity of human economic effort contributed mightily to the decline of the prevailing cake of custom. The result is that the social framework cannot any longer be regarded as a constant —and the social and economic theory that was based on this assumption, has therefore lost its immediate relevance.

Some contemporaries advocate deliberate indoctrination of some *ism* of either a conventional character such as "the American way" or of a more venturesome nature such as one of the fifty-seven varieties of collectivism as a remedy for the difficulty. Here again the basic cause of contemporary difficulty is overlooked. Merely baking ourselves back into some new cake of custom will not remove the distress caused by the cracks in the comfortable crust of convention that covered our routine in the past. For the new cake of custom will give way before the same forces that subverted the old—and the social indoctrinators do not propose to do anything about these forces which are inevitably interwoven with the drift of social policy throughout the world today.

What are these forces? Essentially they all spring from our predominant modern preoccupation with increased material standards of living, with our constant drive toward increased productivity. All our twentieth-century political faiths agree upon this objective and it is frequently envisaged as an end in itself. In the United States, New Deal Democrats

as well as their more conservative brethren in and out of their own party agree upon this objective. Disagreements are a matter of means to achieve this end. Similarly fascists and communists are lyrical in their description of the "waste" of laissez-faire democracy, and here, too, basic agreement upon ends exists, although it comes in sidewise in fascism because of the emphasis on a war-economy. Now increasing productivity—generally accepted as an *end*—precludes the choice of certain *means* and inevitably leads to the selection of others. The social by-products of these means constitute our problem.

Productivity as a social *end* means specialization and division of labor as *means*. It means heavy stress upon the rational and impersonal and it means continuous undermining of the traditional, the social, and the other-than-intellectual. To be sure, the more specialization, the greater the need for careful coördination of the specialists.[8] The specializing—*i.e.*, the differentiating—aspect of our activity is, however, constantly stressed in our day-by-day effort of earning a living, while the coördinating—*i.e.*, the fitting into a common framework—is impersonal and takes place through abstract devices like a price system or the technique of an administrative bureaucracy. These observations hold for consumers as well as for producers, and throughout there is emphasis on doing only one thing and on leaving other aspects to the respective specialists assigned to the matter. This goes even to the extreme where values themselves become a specialty of the clergy or the secular professor of ethics, while the togetherness of ends-and-means becomes a stepchild of all disciplines. In recreation—the very recognition of "recreation" as a separate activity is characteristic of the system—we tend to passivity. We listen, look, and thrill at the activities of specialists, and a general "spectatoritis" develops in these fields. The sense and value of participation has disappeared, and more and more people use only one small part of their potential human equipment. Abstract and impersonal relations predominate, and the general decline of intermediate social groups, of the family, and the church

[8] In education a parallel is found in the heavy stress on analysis and the neglect of synthesis. Everyone writes monographs, and cant about the "hack work" of textbook writers is the life of "pedagese" rhetoric. An authoritative textbook in some significant field of learning can, of course, be as valuable a contribution to knowledge and to teaching as any that can be made in some other field. One reason why hack writing predominates in the text field is the manner in which professional motivation is set against the participation of our ablest talent along these lines, although it could certainly be argued: (1) that the best method of correcting present standards would be the encouragement of such work by really first-rate talent, and (2) that the best method of improving current specialized effort—and of evaluating its relative importance—would be a broad effort to integrate the mass of monographic "knowledge" in a more comprehensive synthetic statement. But the sad truth is that most of our specialists could not write a comprehensive textbook, if they wanted to do so, and—it is to be suspected—that if they tried to do so, much of their expert learning would "come out in the wash."

is obvious to any observer.[9] Sociologists have coined the term *"anomie"* to describe this condition—a community in which the old code has lost its grip on individuals and in which a new code has not yet emerged.

In such a community "specialists" will arise to cater to the new "wants" of a psychological and emotional sort. Commercialized recreation like the movies and dance halls and pathic politics of the totalitarian type illustrate the thesis. Life has to increasing multitudes a quality that might be called "absence of wholeness" or perhaps emotional starvation. Segmental thought and organization becomes characteristic in economic and political life as another typical expression of specialized endeavor. A community in which such traits develop in wide areas becomes a menace to all the values of a free and democratic society. *Chassez le naturel, il revient au galop.* Soon the man on horseback or a civilian and pedestrian expert in emotional discharge on a mass-production basis arises to cater to the "needs" of the multitude—and his remedies will usually be of the type that narrows the market, reduces productivity, and consequently encourages the formation of patterns of violent discharge of the tensions that accumulate. If the very real achievements of specialization are not to be more than offset by these "costs" of the impersonal and abstract—desocializing—aspects of the process, a social program will have to be devised to make specialization "safe for society"—meaning safe for that which makes for social cohesion. Education in the broadest possible sense of the term—from the nursery through the adult stages—may well play a significant part in such a program.

Clearly tendencies of this type cannot be deflected by imposing a superficial change in the pattern of control while we maintain the essential character of the productive process. Industrial development in the U.S.S.R. produces exactly the same social consequences in this respect. Part of the explanation for the lack of understanding among radical critics of "capitalism" of the emotional and psychological factors that help to explain their own "radicalism" probably lies in the esthetic and spiritual poverty of Marxism which professes to see all these factors as dependent upon the mode of production in its *ownership* aspect. The legal technicalities of ownership, however, have little to do with the psychological impact of a given technique of production. "Ownership" by a coöperative, a capitalist corporation, or the federal government is likely to make little difference in the effect upon the impact of a conveyor-belt factory upon the workers involved in such production, unless suitable supplementary organization is provided, and the latter is as likely to occur under one form of "ownership" as under another.

[9] *Cf.* The useful community youth surveys of the American Youth Commission, *i.e.*, Howard M. Bell, *Youth Tell Their Story* (Washington, D.C., Am. Council on Educ.) 1938, pp. 274.

It is suggestive to examine briefly two examples of a social pattern that avoided some of these modern tendencies. The first is historical, the second contemporary.

Medieval education could with impunity stress the purely intellectual or strictly vocational—and these two often meant the *same* thing, as they frequently do today. It operated in a society of which every member belonged to a single strongly entrenched church and in which that church maintained a strong family system that was sacred in every sense of the term. Art in general, group expression in religious ritual and procession, production and consumption, and government itself—all derived their meaning from the same religion. In such a society—unified by a common faith—the problem of other-than-formal education could not even arise. All specialized activity derived its meaning from the common religious core of civilized life.

The Scandinavian countries supply us with a good contemporary example. Too frequently the relatively stable conditions in these countries are discussed in terms of social and economic policy and accompanying organization. The factor of cultural homogeneity is frequently overlooked and the deliberately *created*—as contrasted with historically grown—aspects of this homogeneity are very seldom observed. The striking results of the movement for supplementary adult education in Denmark and Sweden are first of all attached to an other-than-intellectual emphasis in the program. In its origin the movement might even be described as anti-intellectualist in the strict sense of the term. Heavy stress was placed by Grundtvig as early as 1844 on the social and coöperative aspects of education, on folk song and folk dance, on the rôle of tradition, myth, and religious observance, and on the peculiar educational fruits of working and living together. To stress the significance of the contribution this movement has made is not necessarily to demand exact duplication of its program or procedures. Obviously in a different social and historical setting another adjustment of content and techniques would be demanded, and this would be in strict accordance with the essential ideas involved in the movement.

The lessons of the historical and the contemporary example are therefore identical. To maintain social cohesion something beyond the usual secular program is required. In the normal course of events this will be supplied by institutions like the family and the church. With rapid social change involving the position of these fundamental educational influences, the content of formal education should be reëxamined and evaluated in terms of the social setting in which the institutions that supply formal education operate. When the institutions that are supposed to cater to other-than-intellectual needs of the human personality rapidly shift in their range of influence, basic questions are in order as to a corresponding shift in the direction and content of formal education with an eye

to making up the deficiencies now revealed in the activity of the other institutions that played so important a part in the social—*i.e.,* total— education of the young. The deepest challenge to formal education in a democratic society is to find emotional equivalents in its program for the type of thing that is likely to make the totalitarian appeal irresistible if it is not recognized at a sufficiently early date in the process. At bottom, this is the meaning of the appeal of the slogans of "security" and "national self-sufficiency" in political life as well as of the ideas of integration or meaningfulness that now play such a prominent part in American education. The solution, however, does not primarily lie in economic legislation or in improved methods of organizing educational subject matter or in better teaching, but in a radical reorientation in our thought about the content of formal education which will once again restore values to a central place in our program.

The foreign-trade policy and the domestic economic policies of our federal government are all defended in the name of the larger end of the preservation of democratic institutions. Democratic institutions fundamentally rest on the moral foundation of shared values, that is to say, they rest on moral like-mindedness. When the common ethical foundation is undermined—as it is by the drives that spring from division of labor and the impersonal exchange of specialization—dictatorship looms as the only effective way to prevent chaos. In his recent *Freedom and Culture* John Dewey says that a culture which "permits science to destroy traditional values but which distrusts its power to create new ones is a culture which is destroying itself" (p. 154), and it is clear from the context that the term "science" is intended to include all the impersonal technological implications of science as applied to economic activity.

This disintegration of world economy is an obvious fact, only partly obscured by some of the immediate military necessities of countries striving for autarchy. The splintering of domestic markets into monopolistic segments is equally obvious, and the threatening political implications of the destruction of both world and domestic markets are already head-line material in the daily press.[10] Economists who work in a scientific tradition that assumes the social framework of the economic process to be a constant, habitually tackle these problems as if they were questions of tariffs and trade barriers in the international field, and problems of price rigidity and monopolistic tendencies in the domestic market. In fact, the splintering of markets—international as well as domestic—cannot fruitfully be discussed upon the assumption of a constant social framework because the crisis with which we are dealing is itself caused by the breakdown and fluidity of the social framework. Totalitarianism is simply a political response to *anomie,* a final culmination of impersonal and secular tech-

[10] Harry D. Gideonse, ***Organized Scarcity and Public Policy,*** Public Policy Pamphlet no. 30 (University of Chicago Press), 1939.

niques that destroy all traditional checks and restraints. Restrictionism of the New Deal variety is a stop-gap, unable to deal with basic causes and itself a cause of further maladjustments. To restore free markets will reduce immediate economic pressures—and it is therefore desirable because it will give us a new breathing spell—but it will strengthen the very forces that have been traced in this paper, because they arise in an economy of increasing specialization and impersonality with its accompanying secularization and *anomie*.

The larger issue is one of social cohesion. In old-fashioned static language it is an issue of a moral or religious character. The term "static" is used because our modern problem calls for a dynamic process of moral regeneration, an effort to restore social cohesion by deliberate and intelligent endeavor. The social cohesion that made our free political and economic institutions possible in recent centuries was "inherited" (unplanned)—it was in John Dewey's words "a gift of grace." If the free institutions are to endure, the new cohesion will have to be *created* by conscious and rationally directed effort in a planned and purposeful manner. These issues—because they are issues of the social framework of the market—call for a return to the old art of *political economy* rather than a continued pursuit of the illusion of a scientific *economics*. Assumptions about the constancy of the social framework have tempted a generation of esoteric parlor economists into an orgy of mathematical precision, elegant equations—and historic irrelevance. Some of our best minds are splitting fine hairs when they might more fruitfully be splitting some of the dangerous logs that are clogging the flow of intelligence in its effort to grasp the significance of the current scene.

We have gone a long way from the time in which the leading economic thinkers were also the leading moral philosophers. Hume, Smith and Mill were the outstanding authors for their time in both fields. Under such circumstances it was safe to assume constancy in the social framework. Today we live in a climate of opinion in which the problems of values are regarded as beyond the realm of scientific discussion, unless we belong to the arid Marxist tradition in which values themselves are seen as derived from the mode of production. It is not surprising that "economics" has become increasingly exact in its logical and statistical formulations, and at the same time increasingly irrelevant to the social process it claims to study. Meanwhile the lawyers, political scientists, sociologists and even philosophers barge into the discussion of economic problems with admittedly amateurish standards while the economist withdraws in puristic horror to the refuge of the mathematical pages of the scholarly journals where even his own colleagues are not likely to read him for the simple reason that they prefer to spend their time with the lusty challenge to real thought about economic problems as it has sprung up with Adam Smith's earthiness in a business-man's magazine like *Fortune*.

We have gone the whole way from relevance to irrelevance, from a concern with the wealth of nations to a concern with a splinter in the economy. We leave political economy as a social science to journalists while we busy ourselves with the "economics" of money, or agriculture, or labor, or monopoly. It is distinctly bad manners in the profession to draw attention to the fact that the assumptions upon which the analysis of the splinters is based, are increasingly irrelevant to the *altogetherness* of things and that there is no peculiar social merit in the analysis of non-existent problems.

The issue is not one of design *or* drift, or of expanding markets *versus* governmental controls. This paper should not be interpreted as an argument for laissez-faire or as an argument against "planning" in the broad sense of applying intelligence to social problems. There is acute need for planning—for systematic and purposeful activity. The real questions should be directed at the nature of present planning. The present drift of planning—private and public—is concerned with surface symptoms. This is true of the planning which is involved in our foreign-trade and anti-monopolistic policies—planning to restore competitive controls—and it is also true of the planning that is involved in the domestic policies designed to create contrived scarcities. We should keep our eye on the ball: the framework of the market itself is shifting.

The splintering of international and national markets is only superficially a question for economic analysis under the traditional asumptions of constancy of the social framework. For several generations such an assumption has been a defensible working hypothesis. The current crisis has arisen because the assumption of its constancy is no longer valid. It is a crisis of scholarly method as well as of society itself.

Policies designed to broaden markets by the restoration of competitive controls—the open market at home or abroad—are usually argued on the implicit assumption of a *constant* social framework for the market. The argument usually seems unconvincing or even irrelevant to those who argue for restrictionist devices such as many of our domestic economic policies. These restrictive domestic policies—as well as their autarchic parallels in foreign trade—are usually based on assumptions that involve a shifting social framework as a primary source of motivation. Until the issue is joined in this basic area of disagreement—that is to say, until the question is asked: is the social framework (still) a constant? and if not, what difference does it make in the discussion of relevant policy?—the divergent policies in international and domestic markets will be argued with heat but without light because the arguments are not made within the same universe of discourse.

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SOME EFFECTS OF A MINIMUM WAGE UPON THE ECONOMY AS A WHOLE

This paper is concerned with the economic effects, upon the economy as a whole, of establishing a uniform minimum wage. The system under consideration is a closed economy operating at less than full employment and with imperfections both in the factor markets and in the commodity markets. Under these conditions, a minimum wage is likely to increase the economy's propensity to consume. Whether the total volume of employment will, on balance, be maintained, diminished, or increased depends upon whether the increase in effective demand flowing from the heightened propensity to consume equals the decrease in effective demand caused by factors whose influence is adverse. It seems probable that the establishment of a moderate minimum wage would create more consequences favorable to the maintenance of the level of employment than unfavorable. Though price advances may result, the real income of the persons covered by the legislation will be raised. Whether the real incomes of other members of society will be altered is difficult to foretell, the result depending upon the extent of the price changes and upon whether or not the level of employment is maintained.

Most books and articles dealing with the subject of minimum wages are descriptive or argumentative works concerned chiefly with some specific legislative act.[1] In addition to works of these types there are several in which some attempt is made to give a theoretical explanation, of more or less general applicability, of the economic effects of minimum wages.[2] There is neither space nor necessity for detailed criticism of this literature, and it will suffice to indicate the reasons for believing that further study of the subject is necessary:

(1) Until very recent years, almost all theoretical discussions of wages and employment have been founded, consciously or otherwise, upon assumed conditions of perfect competition and full employment. The use of this hypothesis is entirely valid, provided its implications are thoroughly understood and the limitations they impose squarely faced. But failure to distinguish clearly between this analytical model and the real world has too often led writers to content themselves with making casual statements about the effect of minimum wages upon "cost" and equally uncomprehensive declarations about the consequences of changes in cost.[3] It seems

[1] The following are illustrative of these types: Rudolf Broda, "Minimum Wage Legislation in Various Countries," Bulletin 467, U.S. Bureau of Labor Statistics; Dorothy W. Douglas, "American Minimum Wage Laws at Work," *Am. Econ. Rev.*, Dec., 1919; Frankfurter-Dewson-Commons, "State Minimum Wage Laws in Practice" (National Consumers League pamphlet); Helen Fisher Hohman, *Development of Social Insurance and Minimum Wage Legislation in Great Britain* (New York, Houghton, 1933); Victor P. Morris, *Oregon's Experience with Minimum Wage Legislation* (New York, Columbia Univ. Press, 1930).

[2] See, *e.g.*, A. C. Pigou, *Economics of Welfare*, part iii, chapters 15-20; Sidney Webb, "The Economic Theory of a Legal Minimum Wage," *Jour. Pol. Econ.*, Dec., 1912; H. R. Seager, "The Theory of the Minimum Wage," *Am. Labor Legislation Rev.*, Feb., 1913; J. B. Clark, "The Minimum Wage," *Atlantic Mo.*, Sept., 1913; Pigou, "The Trade Boards and the Cave Committee," *Econ. Jour.*, Sept., 1922; Pigou, "A Minimum Wage for Agriculture," in his *Essays in Applied Economics*.

[3] These faults have characterized both advocates and opponents of minimum wage regulation. *Cf.* H. R. Seager, *op. cit.*, and J. B. Clark, *op. cit.*

desirable, therefore, to discover what results can be accomplished by utilizing a different model.

Furthermore, earlier analyses frequently neglected to differentiate between the effects of a wage change upon one firm and its effects upon the whole system, an error which usually resulted in their overlooking the relationship between wages and effective demand.

(2) Recent writings on employment, by correcting these particular faults, have given new and better direction to employment theory and to the theory of wages.[4] Like some of the publications of earlier writers, however, they are usually restricted in scope: (a) they analyze only generalized changes in wages, *i.e.*, changes in all wage rates; (b) they consider mainly the effects of such changes upon the economy as a whole; (c) in general, they do not deal with long-run[5] results.

The time seems propitious, therefore, for a reëxamination of the economic effects of a legal minimum wage.[6] Such a study logically divides itself into three sections, dealing, respectively, with the repercussions of various forms of minimum wages upon individual firms, upon single industries, and upon an entire system. Each of these sets of repercussions calls for and amply repays careful study, and one of them cannot be dissociated completely from the others. Yet it is manifestly impossible to undertake more than one of these lines of inquiry within the short space of one article. In consequence, the present paper will be confined to the examination of that aspect of minimum-wage regulation in which most interest and controversy lie: the effects of a general minimum wage upon the economy as a whole.

I

Before elaborating our own analysis of the effects of a legal uniform wage minimum, it will be well to give a brief résumé of another and quite different explanation of the consequences of this type of regulation. The argument runs as follows: The imposition of a minimum rate of pay will raise the expenses of production. Since entrepreneurs are obliged to equate marginal cost and price, they are faced with the alternatives of reducing out-

[4] See, for example, R. F. Harrod, "Professor Pigou's Theory of Unemployment," *Econ. Jour.*, March, 1934; J. M. Keynes, *The General Theory of Employment, Interest, and Money*, esp. chapters 3 and 19; Joan Robinson, "The Long-Period Theory of Employment," *Essays in the Theory of Employment;* P. M. Sweezy, A. P. Lerner, and others (round-table on "Wage Policies" at Fiftieth Annual Meeting of Am. Econ. Assoc.), *Am. Econ. Rev. Suppl.*, March, 1938; etc.

[5] But a beginning in this direction has been made by Mrs. Robinson in "The Long-Period Theory of Employment," published in her *Essays in the Theory of Employment.*

[6] The following paper, being an abstract, generalized study, unrelated to any actual law or administrative system, makes no pretense of providing a ready answer to the current question. However, the methods employed and problems raised may possibly suggest the points toward which further research might profitably be directed.

It will be noted that the discussion is limited to minimum-wage regulation and that control of hours of work is not considered.

put to the point at which the new cost curve crosses the price line or of raising price. Which of the two courses will be chosen will depend upon the elasticity of the demand.[7] But the results of either course will be deleterious, for in one case unemployment will be created, and in the other case prices will rise. Legal minimum wages, except in rare cases of extreme exploitation, are therefore inimical to the interests of workers and of society at large.[8]

If a price rise were the only possible result of increasing the costs of some producers; and if the price rise were the only significant economic change related to the imposition of the minimum wage, there could be little doubt that employment would be reduced. The fact that recent writings on employment have given prominence to certain factors which do not enter into the Mill-Clark treatment may indicate, however, that the earlier expositors had overlooked several complexities.

II

Wage legislation which contemplates the establishment, by public authority, of a minimum rate of pay for the entire economic system will have many and various repercussions, and it is necessary to select for analysis here only those of primary importance. Consequently, attention will be confined to the effects of a minimum wage upon employment, output, and prices. The basic assumptions hypothesized throughout the discussion must be made clear. The system under consideration will be a non-collectivist exchange economy which is either entirely "closed" or is virtually free from international influences. Existence of imperfections in the markets for commodities and for agents of production will be recognized, and the system will be assumed to be operating at less than full employment.[9] The question

[7] The elasticity of the demand curve of the *industry,* presumably, since under the conditions necessarily (though tacitly) assumed by this explanation the firm's demand curve must be perfectly elastic.

[8] A concise statement of this point of view, which is still widely held, was formulated some years ago by J. B. Clark: "Practical tests of the proposed policy are now in progress . . . and the results of these trials will be carefully watched; but a few things can be asserted in advance as necessarily true. We can be sure, without further testing, that raising the prices of goods will in the absence of counteracting influences, reduce sales; and that raising the rate of wages will, of itself and in the absence of any new demand for labor, lessen the number of workers employed." ("The Minimum Wage," *Atlantic Mo.,* Sept., 1913, pp. 289-90.) *Cf.* J. S. Mill, *Principles of Political Economy,* Ashley ed., p. 362.

[9] The assumptions above enumerated have many significant implications with regard to the individual firm and individual industry, and it is necessary to bear them in mind in studying the effects of a minimum wage upon the whole economy. The more important of these implications are indicated briefly:

(1) When the markets for the agents of production are imperfect, the several firms are likely—even within one industry—to vary not only in their technical coefficients but also in the prices they pay for each of the agents. A given minimum wage will thus affect some producers' costs and leave others' untouched; and, of the former number, there may be wide variation in the manner in which their marginal cost curves shift. (2) When the markets for commodities are imperfect, an individual firm has discretion as to how to meet

to be answered, then, is what are the principal consequences of setting a blanket, uniform minimum wage in all industries?

1. *Effects upon employment.* Adoption of a general minimum wage will increase the money incomes[10] of a number of employed wage-earners, the amount of the increase and the number of workmen affected depending at the outset upon the level at which the minimum is fixed and upon entrepreneurial responses to the regulation. Additions to the incomes of those who formerly stood at the bottom of the income structure might conceivably be used by them to increase consumption, increase saving, or both. But it is most reasonable to believe that virtually the whole of the increment will be spent. Whatever the ultimate result, the *initial* increase in the incomes received by workers covered by the wage order represents a transfer from other income receivers in the system, possibly from entrepreneurs. Since the latter are customarily persons of higher-than-average incomes, it is probable that their former incomes were more than sufficient to satisfy their desires for consumable goods and services and that the excess was saved. If this be true, the most plausible supposition is that any reduction in entrepreneurs' incomes will be met chiefly by reductions in their savings.[11] It is clear, then, that one initial result of the application of the minimum-wage order may be an alteration in the division of a given money income; and that this altered distribution is likely to be accompanied by an increase in the proportion of the total money income which is devoted to consumption.

An increase in the economy's propensity to consume, *ceteris paribus,* would of necessity raise the level of employment, since it is only in this way that the new demand for consumption goods could be satisfied. A wage increase might thus not only alter proportionate shares in the money income but bring about an increase in the real income of the economy. Such an eventuality might benefit not only the recipients of the minimum wage but

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such a change in cost. Instead of the familiar price-output adjustment of perfect competition, the producer may accept a lower return, cut some other cost, "differentiate" his product, etc. (3) The adjustment of the "industry" to a given minimum wage depends upon how the cost structures of the component firms are affected and upon the courses adopted in response to these changes in cost. Thus there is no single pattern of adjustment which will be followed in every industry; and there is no simple explanation of the adjustment in any industry.

[10] The implications of this fact can be ignored in studying the individual firm or industry, but they are fundamental to the treatment of the effects on the economy.

[11] The reader will recognize, of course, that the persons whose relative savings are reduced are not necessarily the employers in the firms affected by the minimum wage, even in the short period. For example, many "sweated" trades are characterized by circumstances which result in exceptionally low prices for consumers but only meager returns for many employers and employees alike. But in these cases the principle is not altered: the essence of this initial phenomenon is a transfer to the persons at the bottom of the income scale from persons and groups of persons higher up in the scale; *i.e.,* from persons with higher average saving/consumption ratios. It may come wholly from a few entrepreneurs or be spread in very small amounts over a large number of consumers.

other wage-earners and even entrepreneurs as well. If an increase in the propensity to consume were the only consequence, the ultimate results of the minimum wage would therefore be to raise the level of employment, to augment the total real income of the economy, and to effect a redistribution in the relative shares with little or no decrease, in the long run, in the entrepreneurs' absolute share.

But "other things" are not likely to be equal, and the net influences of the minimum wage upon the marginal efficiency of capital and the rate of interest are not clear. At the outset, there may be some reluctance on the part of entrepreneurs to make investments out of reduced incomes. It must be remembered that the "marginal efficiency" of capital is the *anticipated* marginal productivity of capital, and if entrepreneurs' expectations are gloomy they will have a temporarily depressing influence on investment. It is also true that because of the alteration in the relative shares described above, the consumers' goods industries will benefit more, initially, than will the investment goods industries. On the other hand, there are also several features of the new situation which act favorably upon investment. First, the stimulation received by the consumers' goods industries from the heightened propensity to consume will itself increase, in all probability, the amount of capital required by the consumption goods industries.[12] Second, in so far as the investment goods industries are trades in which the ratio of capital to labor is high, the wage rise is likely to increase the investment attractiveness of these "more capitalistic" industries. Third, promulgation of a minimum wage may promote the desire to replace men by machines, and, where this substitution is possible, the increased use of machines will benefit the capital goods industries.[13]

The reduction in the proportion of the total income which is saved was noted above, but whether there would, in the long period, be a reduction in the absolute amount of money saving is uncertain. If the quantum of saving were diminished and the marginal efficiency of capital increased, on balance, by the establishment of the minimum wage, the rate of interest

[12] A great part of the demand for capital goods is derived from the demand for consumption goods, and a rise in the latter must therefore be beneficial to the former. Mr. Hicks overlooks this fact when he says that, although a wage increase will reduce unemployment in the consumption goods trades, this favorable result "will be directly set off by more unemployment in the heavy industries" (*The Theory of Wages*, p. 194).

[13] It is interesting to observe that, historically, the industries to which minimum wages have directly applied have been consumers' goods industries. This is probably attributable to the fact that the chief motivation of most minimum-wage laws has been the "living-wage" principle, and capital goods industries have generally not been major offenders against this standard. But, upon different bases, almost any industry might conceivably be regulated. It is therefore theoretically possible, though practically improbable, that a minimum wage might be applied to an investment goods industry. If so, and if the result were to raise the price of capital goods to any considerable extent, the adverse effect on investment might, in this special case, outweigh the favorable influence.

would tend to rise, and *vice versa.*[14] The importance of the rate of interest in determining the level of employment, however, is open to question.[15] Certainly the other two factors are more significant.

If there is an increase in employment which is accompanied by a decline in the numbers of the unemployed, there will be a consequent reduction in the volume of expenditures from public funds for the support of the unemployed. What effect this change will have will depend upon what fiscal policy the government employs to meet it.[16] If income taxes are decreased or the sale of government bonds diminished, the volume of money saving will doubtless increase; and the increase in saving will be greater if bond sales are reduced than if taxes are lowered. But a reduced expenditure for public poor relief may not induce fiscal authorities to lower governmental receipts. If there is no appreciable change in the burden of public relief, the problem of fiscal policy does not arise, of course.

2. *Effects upon output.* In the preceding paragraphs our attention was confined to the influences exerted by a uniform minimum wage upon *total* employment in the system. If the wage regulation should raise the level of employment, it follows that the total output would be thereby increased, though in the short run the operation of diminishing returns might prevent an increase fully proportional to the rise in employment. Whether or not the total volume of employment and output is changed, it might be well to inquire what, if any, changes may be expected in the *composition* of total employment and total output.

A wage increase sometimes sets up a tendency, in the opinion of Mr. Hicks,[17] for capital funds to shift out of industries in which large amounts of labor are utilized and into those industries which employ a smaller ratio of labor to capital. There appear to be several factors whose operation will tend to minimize that movement, however: (a) Any shifts in demand for particular products occurring as a result of the wage change will probably benefit industries in which the labor-capital ratio is high as well as those in which it may be low. (b) The initial cost involved in entering a business using a large quantity of capital is greater than the average cost of entering industry in general. (c) The usual impediments to the rapid movement of capital—reluctance to sacrifice a sunk investment, etc.—will be present. It

[14] This is the result which traditional interest theories would predict. Since the volume of saving and the marginal efficiency of capital play only minor rôles in Keynes's theory of interest, the changes here described would probably be regarded by Keynesians as unlikely to have much effect upon the rate of interest.

[15] *Cf.* J. F. Ebersole, "The Influence of Interest Rates upon Entrepreneurial Decisions," *Am. Econ. Rev. Suppl.*, March, 1938, pp. 74-75.

[16] A similar problem of relief financing is treated by Mrs. Robinson in "Certain Proposed Remedies for Unemployment," *Essays in the Theory of Employment*, pp. 64-66.

[17] *The Theory of Wages*, pp. 187-189.

seems probable that any "shifting-out of capital" will be gradual and of small magnitude.

In its effects on the supply of labor in various industries, a uniform minimum-wage law will differ from a generalized wage advance. In the first place, an upward revision of all wage rates might not alter appreciably the relative attractiveness of various jobs. But a minimum wage of the type here considered would initially and directly change only the wages of the occupations formerly receiving the lowest remuneration. Although its ultimate effect on total employment might benefit other workers also, such a wage regulation might nevertheless attract some workers from other occupations. Second, the minimum wage would be less likely to draw *new* workers into the labor market than a rise in all wage rates. Third, it is probable that either type of wage change would be accompanied by the withdrawal of some workers[18] from the labor market (*e.g.*, some wives would no longer have to work if their husbands' incomes were raised), though this movement would be more marked in the event of a minimum-wage order. Any shift of laborers to the regulated industries would be of limited significance, since the usual effect of an over-supply would be precluded by the existence of the law. It is also improbable that the transfer would be large enough to change wages or employment in the industries from which workers shifted.

Another change in the composition and location of total employment and output may be introduced by a geographical movement of firms. Although important, this subject cannot be discussed in the present paper, for the questions involved are more properly classified and more easily handled in the study of the effects of wage regulation upon the industry.

3. Effects upon prices. It has been seen that a general minimum-wage order may result in small rises in the prices of some commodities, and it is important to give further examination here to the nature of the price changes and to their effects upon various portions of the economy. Restricting our attention for the moment to instances of price rises, we may say that firms which raise prices will simply lose business to firms (in the same or other industries) which do not raise prices—if we assume with Clark that total demand is unaltered. The results in the system as a whole would then resemble those which may be found—upon an analogous but in that case more appropriate assumption with respect to total demand—to be experienced by the industry. But if the imposition of the minimum wage should produce no diminution in total consumption and employment, the results are not so simple. It is impossible, of course, to predict *a priori* the exact disposition of the income in such a case, but two factors to which allusion has already been made may be significant. It has been observed that, historically, both specific and general minimum-wage laws have applied to con-

[18] This is a point which Professor Douglas greatly stresses. See *The Theory of Wages*, pp. 313-314.

sumption industries, and it is therefore in these industries that any price rises are likely to occur. But the increase in total effective demand, being caused by the elevation of the propensity to consume, is also concentrated on the consumers' goods industries. It is therefore not too much to say that some of the very industries in which demand curves are raised perceptibly may be ones in which some firms have advanced prices. To the extent that this is true, the disturbances of readjustment will be minimized.

It is a commonplace that rises in prices do not fall upon all members of economic society in the same fashion and with the same force. Furthermore, any changes in money prices attributable to a minimum wage are less significant than changes, if any, in real income. It is equally familiar that a rise in the level of employment, with given organization, equipment, and techniques, is accompanied by a reduction in the short period of the average real income per head. The long-run effect, however, is not easy to predict. Let us examine how the real incomes of particular groups would be affected:

a. Real wages of workers covered by the regulation. It seems highly probable, at first glance, that the wage increase of workers affected by the minimum would be real as well as monetary. The introduction of a highly formalized analysis may be unnecessary, but the examination of one hypothetical situation will prove useful at this point. Let it be assumed that a uniform minimum-wage law has been enacted. Let it be assumed also that all firms which feel the incidence of the regulation had previously been paying the same wage; that technical coefficients are the same for each of these firms; and that the curves of average and marginal costs, respectively, of each firm are identical with the average and marginal cost curves of each other firm so affected. Suppose, finally, that each firm makes its adjustment wholly through price and output.

If the expenditures of the workers in the firms under consideration were restricted to purchases of the product of their own firms (or of products whose prices were raised in precisely the same degree) the problem of measuring the change in their real wages would be easy:

$$\frac{\textit{old wage}}{\textit{old price}} = \textit{old real wage}, \qquad \frac{\textit{new wage}}{\textit{new price}} = \textit{new real wage},$$

and $$\frac{\textit{new real wage}}{\textit{old real wage}} = \textit{index of real wages on the old base.}$$

The above case, in which all of the workers' expenditures are on products whose prices are uniformly affected by the minimum, represents the smallest rise in real wages from a given change in money wages. The upper limit is the case in which workers spend *no* part of their incomes upon goods whose prices have advanced. In this event, the old price = new price (*ceteris paribus*), and the percentage rise in real wages is equal to the percentage

rise in money wages. The actual rise in the real wage of workers employed in the regulated industries, then, will lie somewhere between the limits here delineated.

b. Real wages of other wage earners. Workers whose wages are already equal to or higher than the minimum legally adopted are not directly benefited by the kind of legislation considered in this section. If it be assumed that a few prices are raised by any amount whatsoever, the real wages of such workers will be lowered by an amount measured by the change in a hypothetical index of the prices entering into their budgets. More accurately, this is the result indicated if only the price changes are considered. But there are several factors whose operations are likely to limit or even entirely offset this apparent reduction in real wages. The multitudinous wage rates existing throughout the economy are often thought of collectively and referred to as the wage "structure." The image suggested by such a metaphor is that of an edifice with internal stresses and with interdependent parts the position of which may be changed if the thrusts are altered. It is interesting to inquire what influences the establishment of a minimum rate of pay throughout the economy may exert upon other wage rates. First, any increase in total employment arising from the heightened propensity to consume means an increase in the number of employed "labor-units" (however defined), and for individual workmen this is likely to mean more regular employment. Second, the rise in the level of employment will strengthen the bargaining position of all laborers, and those not covered by the minimum law may be able to secure an upward revision in their own wages by usual trade-union methods. These features of the situation will counteract, to a greater or less degree, the effect of price rises; but their existence depends upon whether employment is raised. It should be observed, third, that it is possible that some prices will actually fall. Some of the industries which experience an increase in demand as consumption patterns shift may offer economies to a large-scale operation. Expansion of these industries may lower somewhat the prices of their products.

Real wages of workers other than those embraced in the minimum-wage legislation evidently will be somewhat lowered in the short run if prices rise. But it is possible that in the long run the influences of the enlarged effective demand upon the regularity of employment, the bargaining position of the trade unions, and the attainment of more economical scales of operation may reduce, if not entirely counterbalance, the effect of price changes upon real wages.

c. Real income of entrepreneurs and rentiers. It has been observed above that, so far as its effect upon saving and consumption is concerned, a minimum-wage law would certainly lower the relative share of the social income going to the entrepreneurial class but might not lower, in the long period, its absolute share. Any price advances which may occur will affect rentiers adversely, of course.

In summary of the price discussion, though price advances may follow the establishment of a minimum wage, the real income of the class covered by the legislation will be increased. Whether the real income of other members of society will be altered is difficult to foretell, the result depending upon the extent of the price changes and upon whether or not the level of employment is maintained.[19]

Summary

Generalized, catholic conclusions as to the effects of a blanket minimum wage upon the whole economy are extremely difficult to formulate. As we have seen, there are many points at which the economy might feel the influence of the regulation, and unfortunately the manner in which one sector may be affected usually depends in large measure upon how others are affected. Obviously, the most important single (economic) question is whether the total volume of employment will, on balance, be maintained, diminished, or increased. This outcome depends, in turn, upon whether the increase in effective demand flowing from the heightened propensity to consume is equal to, less than, or greater than the decrease in demand caused by price rises or a flagging of investment. In any actual situation, a number of factors should be considered, such as the amount selected as the minimum rate, the phase of the trade cycle, the kind and number of businesses likely to be affected, etc.

It seems probable that adoption of a wage which would raise considerably the incomes of those who formerly had been receiving the very lowest incomes and which would bring the wage scales of all firms into some rough conformity with the marginal productivity of the system would be likely to be followed by more consequences favorable to the maintenance of the level of employment than unfavorable. And it is possible that in some circumstances there might even be some increase in employment.[20]

On the other hand, however, there undoubtedly exists at a given time a zone beyond which the wage could not be set without producing more adverse effects on employment than beneficial ones. The various unfavorable reactions on entrepreneurial expectations which might be produced by a large increase in wages serve to limit the heights at which the minimum wage might be set in a non-collectivist economy.

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[19] It is well to remember that the conclusions here and at certain other points in this section would have to be modified if the assumption of a closed system were relaxed. If there should be large changes in prices, for example, some adverse effects might be felt in an open system which do not arise here.

[20] See the remarks by A. P. Lerner at the round-table on "Wage Policies," *Am. Econ. Rev. Suppl.*, March, 1938, pp. 157-158.

WAGES-FUND THEORY AND THE POPULAR INFLUENCE OF ECONOMISTS

Aside from discussions over technical aspects of theory, economists as social scientists have always been concerned with public questions of their day. Although the wages fund is mainly of historical interest in economic theory, it has generally been supposed that it represented a subject on which professional economists made a contribution to public opinion of mid-nineteenth century England. Study of the views of a great variety of individuals as presented in reports of a British Royal Commission in 1867-68 indicates that the discouraging conclusions of economists on the success or justice of trade-union action to raise wages were not widely known. Individuals and groups to whose interest such professional opinion would have been favorable were not familiar with it. John Stuart Mill, a prominent public figure at the time and a wages-fund theorist, has been thought to have relaxed the severity of his conclusions in later years, but examination shows that he did not give up the basic concept of the theory.

It is tradition that during the middle years of the nineteenth century the theoretical views of economists were popularly applied by the British public to the efforts of trade unions to raise wages. The generally accepted wage theory at the time was that known today as the "wages fund." Wages were supposed to have been paid from a fund of capital in the hands of the capitalist-employer. For a given period of time, a year for example, the size of this fund was fixed. It was a corollary of this proposition which was applied to oppose trade-union action dealing with wages. If one group of workers increased its share by pressure of a strike, some other group of workers somewhere would have to take less; only a certain total amount was available for wage-earners. In the history of the development of economic theory it has been represented that this theoretical argument of the ranking economists was used by the general public or "informed middle-class opinion"[1] to demonstrate the futility or inequity of strike action over wages. The theoretical views of economists were supposed to have given this lead to popular thought. Examination of evidence available shows that these theoretical arguments of economists were not widely known to the general public, and were practically unknown to groups with an immediate interest in a wages economy.

Ricardian economics is the basis for the wages-fund theory, but John Stuart Mill is considered to have given it the most concise and generally accepted expression in his *Principles of Political Economy,* first published in 1848. His much-heralded "recantation" of the theory in 1869 is considered to mark its dénouement. Cairnes's reassertion of the doctrine and its implications for trade-union activities in 1874 is looked upon as a dying gasp. It was during the middle years of the century, corresponding to the period of Mill's preëminence as an economist, that the general public is supposed to have been most interested in the economists' theoretical views on wages. By a study of the writings of economic theorists of the period

[1] Sidney and Beatrice Webb, *Industrial Democracy,* London, 1897, pp. 615 *ff.*

wages-fund theory and its conclusions as to efforts to raise wages by combination. It would have been a very convincing argument for public con-

Taussig has shown that their chief interest was in the implications of the wages-fund theory for the problem of population control rather than for that of the combination of workers.[2] More precise evidence is available to show that the public was generally unaware of the implications or conclusions of the wages-fund theorists as to trade-union activity.

Strikes in the London building trades in 1861-62 and continued labor disturbances culminating in considerable violence in Sheffield in 1867, led to the selection in that year of "Royal Commissioners Appointed to Inquire into the Organisation and Rules of Trades Unions and Other Associations," as they were designated by the Queen's warrant. This Commission sat for evidence in 1867-68, hearing the testimony from people of all shades of opinion. The reports of the Commission are a fine cross-section of the diverse views on these matters as expressed by representatives of the British public at that time.[3] From the views revealed in these reports, popular opinion on trade unions and the extent to which the public was cognizant of the wages-fund doctrine, and was influenced by it in its thinking on trade unions, can be ascertained. This was just at the time when the theory is supposed to have had its greatest currency in popular thought. The hearings before the Commission, however, indicate to the contrary. The British public in 1867 was unfamiliar with the theoretical views of economists on wage theory. The wages-fund doctrine and its implications as to union activities were unknown to people who were closely concerned with these matters.

For a period of more than a year a Royal Commission heard testimony from all types of employers, from public officials, and from union members and leaders. It was the ideal opportunity for employers to expound the

[2] F. W. Taussig, *Wages and Capital,* New York, 1897, pp. 236-240.

[3] *Reports of the Royal Commissioners Appointed to Inquire into the Organisation and Rules of Trades Unions and Other Associations; together with Minutes of Evidence and an Appendix Containing a Digest of the Evidence, Correspondence with Her Majesty's Missions Abroad regarding Industrial Questions and Trades Unions, and Other Papers. Presented to Both Houses of Parliament by Command of Her Majesty,* London, 1867-69, xii vols.

These are the official parliamentary documents as published by Her Majesty's Stationery Office. The first ten reports contain a verbatim account of the testimony before the Commission in court record style. The last report is divided into two "volumes," the former containing the final majority and minority reports of the Commission plus dissents and "observations" of several individual Commissioners; the latter volume, an "appendix," includes a digest of the entire evidence from the first ten reports, tabulated replies from questionnaires submitted by the Commission to trade unions, letters from members of the British diplomatic service relative to labor conditions in the foreign countries to which they were representative, and miscellaneous correspondence from employers, trade associations, and chambers of commerce. These reports were published intermittently from 1867 to 1869 and vary in size from about 30 to 200 pages each. Professor Richard T. Ely personally collected these reports and presented them to the Library of the University of Wisconsin. They have been bound into two large volumes, and are now in that library. The author is unable to determine whether a full collection of these official reports is available in any other library in the United States.

mission, Sir William Erle, wrote that they were of a speculative nature and

wages-fund theory and its conclusions as to efforts to raise wages by combination. It would have been a very convincing argument for public consumption, and above all could have been clinched by the prestige and authority of Mill. But the theory was neither mentioned nor discussed by anyone—commissioners, employers, or workers. Only once in the testimony was the theory suggested. On the first day of public hearings, Sir Edmund Walker Head, a member of the Commission and former governor-general of Canada, was questioning the first witness, Robert Applegarth, leader of the London carpenters. The following testimony is recorded:

Q. Do your interests depend somewhat on the amount of capital employed in the trade? Yes.

Q. And does not the amount of capital employed in the trade depend upon the employer and what profit he makes by it? Yes.

Q. Therefore your interests may be affected indirectly through the employer, although the direct benefit apparently is gained by the workmen? Yes; but I would ask what we should do in the event of all the rest of the trades getting an advance of wages, and the price of things going up, if we were to stand still.[4]

Further discussion along this line was not pressed, and never again during the entire testimony was this approach made. Even here with the first witness there was only a hint, it will be noted, and the theory was not directly expressed. It is questionable that either of the men knew the orthodox conclusion of the line of economic theory along which they started. In an addendum to the final reports of the Commission the wages-fund theory was presented and applied to the problem of the trade unions. Mr. Herman Merivale wrote some personal observations, including an exposition of the wages-fund doctrine, which he submitted to his fellow members for inclusion in the official report. Merivale had been a barrister, under-secretary for India, and from 1837 to 1842 he held the professorship of political economy at Oxford. He was the only professional economist connected with the investigation. In his memorandum he said:

That wages depend in reality on the demand and supply of labour; that they cannot rise, except either by an increase of the aggregate funds employed in hiring labour, or a diminution in the number of competitors for hire; and that these truths, applicable as they are to the entire amount of wages earned in a country, are as substantially, though not as directly, applicable to the amount of wages earned in each separate employment—are propositions which . . . are as thoroughly understood and admitted by the intelligent class among the workmen themselves as they are by impartial inquirers.[5]

This is a succinct statement of the wages-fund theory by an economist. It is supposed to have been the popularly accepted explanation of wages. Yet the final majority and minority reports of the Commission did not include any reference to these observations of Merivale. The chairman of the Com-

[4] *First Report,* 1867, p. 10.

[5] *Eleventh and Final Report,* 1869, vol. 1, p. cxxi.

mission, Sir William Erle, wrote that they were of a speculative nature and not "appropriate to the substance of the *Report*."[6] It would appear that these propositions did not receive the popular acceptance which Merivale claimed for them among the "intelligent class" of workmen or even the "impartial inquirers" as represented by the members of the Commission. It is also curious that during the investigation Merivale did not direct the testimony of any witness toward the wages-fund theory.

The only conclusion which can be drawn from this evidence of testimony and official reports is that the principles of the wages fund were not known to any sections of the general public which were dealing with trade unions. Neither employers, representatives of trade associations or chambers of commerce, nor public officials appearing before the Commission had any familiarity with the theoretical views of economists on wages and trade-union combinations to raise them. It was a very limited number of people who could apply advanced economic theory to this problem at issue. These theoretical discussions of wages by professional economists did not filtrate through to the thinking of the middle class to any extent. The views of the employers and other interests opposed to the demands of trade unions were that wages were determined by "supply and demand," but this formula was never presented in the theoretical development of the wages-fund doctrine. The chief concern over demands for wage increases was that Britain's comparative advantage in foreign trade would be threatened. Interests opposed to the trade unions may have missed a trick in not applying the theoretical conclusions of professional economists on wages. Historians of economic thought have been wrong in ascribing to economists a leading influence on the popular opinion of mid-nineteenth century Britain in regard to trade unions and their efforts to raise wages.

Mill's much-discussed recantation of the wages-fund theory appeared in the *Fortnightly Review,* May, 1869. Mr. W. T. Thornton had written a book dealing with the labor problem in the course of which he denied that there was such a fund as a wages fund in the hands of individual capitalists or the capitalist class as a whole.[7] He believed that wages were paid from the proceeds of current sales. In his review of the book Mill acknowledged the validity of Thornton's criticism. This is supposed to have been his recantation. Taussig says that it was actuated by friendship for Thornton and the shift in Mill's interest from technical economic theory to the ethical and social considerations of trade-union activtiy.[8] If one looks to what Mill believed about wages, as expressed in this review, it will be seen that he still clings to the fundamental proposition of the theory, *i.e.,*

[6] *Ibid.*

[7] W. T. Thornton, *On Labour: Its Wrongful Claims & Rightful Dues,* London, 1869. Thornton drew much factual data for this book from the reports of the commission of 1867.

[8] F. W. Taussig, *Wages and Capital,* New York, 1897, p. 248.

that labor is paid from a fund in the hands of the capitalist; only now, wages are not rigidly pre-determined, they are a residuum along with profits for each individual entrepreneur; wages can be raised at the expense of profits. This is a reversal to the strict Ricardian position of the relation between wages and profits. Mill's repudiation of the wages-fund doctrine is overrated; in fact, he never gave up the fundamental proposition of the theory. In the seventh edition of the *Principles,* published in 1871 two years after his review of Thornton's book, he did not alter his previous observations on wages. In a footnote he referred to the review but remarked that these new principles were "not yet ripe for incorporation in a general treatise on Political Economy."[9]

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[9] J. S. Mill, *Principles of Political Economy,* Ashley ed., p. xxxi.

COMMUNICATIONS

A Reply to Mr. Villard

In a recent article the writers have argued that checks which are cleared within bank accounts at the times of bank postings represent a distinct, but negelected, form of money.[1] Mr. Villard takes issue with this view on the ground that it assumes an unrealistic definition of a deposit balance,[2] which we defined as the net credit balance existing within a bank account at any given time. The writers feel that this definition is the one generally accepted by bankers, economists and the public at large. Even Mr. Villard, himself, unwittingly slips into the use of it in his concept of exchange velocity.[3] Since the disagreement between Mr. Villard and us hinges on a definition, however, the issue at stake is whether his definition or ours is the more suitable for monetary analysis.

Mr. Villard's definitions of a deposit balance are: (1) "the amount of checks which will be honored when drawn by an individual;"[4] (2) "the right to draw a check."[5] How is a deposit balance in either of these senses to be measured? Mr. Villard gives no answer. If the net credit balance within a bank account is used as a measure, his definition of a deposit balance agrees with our own. On the other hand, if the amount of the net credit balance within a bank account *plus* the amount of checks accumulating for credit to the account during the interval between bank postings is used as a measure, checks which may neither reduce the deposit balance in the account against which they were drawn nor increase the deposit balance in the account to which they are credited are treated as deposit balances. It seems more reasonable to treat checks which are cleared within a bank account at the time of bank posting for what they really are—namely, a distinct form of money independent of deposit balances.

Mr. Villard's criticism warrants mention of an additional point. Checks which are cleared within bank accounts have nothing to do with velocity in the sense of a "turnover" of deposit balances. Only to the extent that intra-account clearing is incomplete does a transfer (turnover) of a deposit balance occur. While clearing within a bank account is unlikely to be complete at any one posting, the writers have reason to believe that the volume of intra-account clearing which does occur in this country at each bank posting represents a substantial proportion of the total volume of monetary transactions in any given period.[6] The intra-account clearing process, in other words, greatly restricts the quantitative importance of velocity in the "turnover" sense. Mr. Villard is undoubtedly concerned about the implications of this process for the theoretical significance of exchange velocity since, given our definition of a deposit balance, "the rest of the argument . . . follows logically."[7]

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[1] "A Neglected Component of the Money Supply," *Am. Econ. Rev.*, Sept., 1939, pp. 514-520.

[2] "A Note on Offset Checks as a Component of the Money Supply," *Am. Econ. Rev.*, Dec., 1939, pp. 798-799.

[3] *Loc. cit.*, p. 799. [4] *Loc. cit.* [5] *Loc. cit.*

[6] Unpublished, sample data from selected bank accounts support this belief.

[7] *Loc. cit.*

Comment on "Offset Checks as a Component of the Money Supply" by Mr. Villard

Professor Villard objects[1] to Dice and Schaffner's definition of deposits as credit balances[2] because it "would make impossible the calculation of the (exchange) velocity of money. It is now possible," he writes, "to derive such velocity from total debits and total deposits." He suggests as a proper definition of deposits "the amount of checks which will be honored when drawn by an individual."

Every deposit of a check places an accounting credit in the account of the depositor which according to Mr. Villard represents for a moment at least the acquisition of a credit balance. However, such credits are invariably accompanied by debits to the accounts of the check writers. Consequently if we are to compare the accumulated sum of credit balances which have had a momentary existence to debits to individual accounts the velocity figure will remain constant since every check written will increase the numerator and denominator equally. On the other hand, if we use in the denominator of the formula not *funds* deposited but the check writing ability of depositors as of some given moment, we are back to Dice's definition of deposits as credit balances after posting.

The fact that all debits to deposit accounts do not represent transfers of existing credit balances can be illustrated by a case in which credit balances do not exist. Suppose that A plans to deliver $100 worth of merchandise to B, that B plans to deliver an equivalent worth of produce to C, and that C plans to deliver $100 worth of his goods to A. Assume further that all deliveries are to occur within a given month, settlement to be made on the first day of the following month, and that these three individuals represent a complete economy. Finally, assume that neither A, B, nor C, have a balance at the bank, or, if this seems extreme, that such balances as they have are purely nominal in the sense that they are the minimum necessary to get their names on a ledger page, *i.e.*, $1.

Under these assumptions it will be possible for each to pay for the goods which he receives with a check written in anticipation of the check which he is to receive. Thus on the settlement day A, B, and C will each write one check for $100, and will each receive one check for $100. Upon depositing these checks each will have his account credited for the check he deposits, and a few minutes or a few hours later[3] will have his account debited for the check which he wrote. Total debits to individual accounts will be $300, total funds deposited will also be $300, but it will be impossible to conclude that credit balances were transferred from account to account since *before, during,* and *after* the transactions aggregate credit balances were zero (or else the nominal sum of $3 which did not change). The significance of a velocity figure (*i.e.*, $300 $\div$ 0) in this situation is difficult to ascertain.

The example illustrates how, when receipts periodically offset payments, any number of transactions may be financed without changing the quantity or altering the location of existing credit-balances. It also suggests the real significance of deposits since credit balances become essential only to the extent that transactions

[1] In a communication to the *Am. Econ. Rev.*, Dec., 1939, p. 798.

[2] "A Neglected Component of the Money Supply," *Am. Econ. Rev.*, Sept., 1939, pp. 514-520.

[3] The length of time depends upon whether the individuals deal through one bank, or several banks. If several banks are employed, the time will vary accordingly as the banks are located in the same or different towns.

in goods fail to clear. Consequently to divide total debits to individual accounts by the amount of existing credit balances does not indicate the number of times credit balances were transferred between the depositors of banks, but rather gives a figure which is the reciprocal of the percentage of aggregate goods exchanges that did not clear during that period.

WILFORD J. EITEMAN

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Comment on a Neglected Component of the Money Supply

In an article entitled "A Neglected Component of the Money Supply" in this *Review* (September, 1939), the authors argue that because of the virtually simultaneous intra-account clearing of checks an important component of the money supply has been overlooked.

All the commercial banks regarding which I have any detailed knowledge require that the collected balance of an account be sufficient to cover any checks drawn on that account. Checks deposited for credit to an account ordinarily require from one to several days before the amounts involved become collected balances. This is well understood by all business-men with whom I am familiar, and the banks in this part of the country at least seem to make frequent analyses of accounts in order to assure themselves that checks are not being drawn against uncollected balances.

It occurs to me that the authors of the article in question would have avoided what appears to be a serious error in their deductions if they had known more about the credits to the business firm's bank account which is shown in connection with their article. I suggest that those credits, especially some of those involving even amounts and fairly substantial sums, may represent deposits of the proceeds of borrowed funds or cash obtained from some other source. In any event, I am quite sure that few banks today will permit substantial drafts against uncollected balances.

If my knowledge of the existing situation is correct, the so-called "neglected component" must be quite negligible in total amount, and therefore it should perhaps remain a "neglected component" in so far as students of monetary theory are concerned.

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Mill on Machinery

It is commonly thought that John Stuart Mill had serious doubts about the social benefits of machinery because of the oft-quoted passage in his *Principles of Political Economy:* "Hitherto (1848) it is questionable if all the mechanical inventions yet made have lightened the day's toil of any human being."[1]

Citing and apparently commending this statement, Karl Marx goes on to say that the capitalistic application of machinery is not for the benefit of the laborer, but merely to lengthen the portion of his time which he gives without an equivalent, to the capitalist and, therefore, it is but "a means for producing surplus value."[2] Many other illustrations could be given of similar misunderstanding of

[1] Book IV, ch. vi, sec. 2.

[2] *Capital*, vol. i, part i, ch. xv, sec. 1.

Mill's meaning in this connection. For example, Stuart Chase writes: "In the midst of this period, John Stuart Mill propounded his famous question of whether all the labor-saving devices invented to date had lightened the work of any human being. By and large they had not."[3] So also Lewis Mumford writes of Mill as agreeing in this respect "with the most bitter critic of the new régime, John Ruskin."[4]

That these and similar citations are beside the mark may readily be seen by referring to other quotations from Mill. For example, in the chapter on circulating and fixed capital he wrote: "Nevertheless, I do not believe that, as things are actually transacted, improvements in production are often, if ever, injurious, even temporarily, to the labouring classes in the aggregate . . . every improvement, even if for a time it diminish the circulating capital and the gross produce, ultimately makes room for a larger amount of both than could possibly have existed otherwise. It is this which is the conclusive answer to the objections against machinery; and the proof thence arising of the ultimate benefit to labourers of mechanical inventions, even in the existing state of society, will thereafter be seen to be conclusive."[5]

A glaring contradiction, surely, between these statements and the more familiar and pessimistic quotation so often cited by socialists and technocrats. But that is easily resolved by noting that Mill, as a Malthusian, believed that all the benefits coming to the laboring class from an increasing demand for their services, were speedily taken away by the increase of population. Thus he wrote: "All these improvements make the labourers better off with the same money wages, better off if they do not increase their rate of multiplication."[6] Wherefore he hoped for the coming of a stationary state in which improvements should continue while population ceased to multiply. When, therefore, writers cite the passage in question they should give the context thus:

"Only when, in addition to just institutions, the increase of mankind shall be under the deliberate guidance of judicious foresight, can the conquest made from the powers of nature by the intellect and energy of scientific discoverers become the common property of the species, and the means of improving and elevating the common lot."[7]

J. E. LeRossignol

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How Dead Is the Benefit Theory?

Because Professor Simpson's article[1] on the rise and decline of the benefit theory is both illuminating and interesting, it is also provocative of additional comments. This note is not intended to challenge any major part of his argument, but rather to extend it to a related point.

Few persons would contend, even prior to Simpson's exposé, that the entire property tax burden is distributed in accordance with the benefit principle. Recent attempts to "reconstruct" the *ad valorem* levy on property as strictly a

[3] *The Economy of Abundance,* p. 81.
[4] *Technics and Civilization,* p. 205.
[5] *Principles,* Book I, ch. vi, sec. 3.
[6] *Ibid.,* Book IV, ch. v, sec. 2.
[7] *Ibid.,* Book IV, ch. vi, sec. 2.
[1] "The Changing Theory of Property Taxation," *Am. Econ. Rev.,* Sept., 1939.

benefit tax have been abortive and unfruitful, as was to be anticipated. It does not follow, however, that the ability theory is in exclusive possession of the property tax domain. Rather, the two theories have a joint interest in the field, and the division of fractional equities is yet to be established with precision.

Confusion of thought and issues is likely to result from speaking of *the* property tax, as though it were one simple levy imposed for the support of an integrated group of governmental functions. Actually it is an aggregate of individual levies, imposed on a common tax base, but made for the support of manifold heterogeneous functions. No two of the several levies that constitute the total or consolidated millage levy need stand in the same relation to the benefit and ability principles. To look for a single, simple, theoretically unifying distributive principle is to search for the end of the rainbow.

It is not difficult to cite individual levies that clearly exemplify the ability theory. Examples of such are the levies made for the support of general government, education, public health, and the like. In contrast, examples of levies based on the benefit principle are not as numerous or as clear-cut. If an *ad valorem* levy distributes the tax burden according to the same pattern that would obtain if an equal amount of revenue were collected by means of fees, and if the imposition of fees or other direct benefit charges is a practicable alternative method of collection, it seems reasonable and proper to assume that such an *ad valorem* levy is based on the benefit principle. This conclusion is especially obvious in cases where the equating of costs and benefits was originally the primary objective, and it was found that the most reasonable way of attaining this goal was by apportioning costs in direct ratio to the taxable property values within the districts benefited. The millage levy for fire protection on forested and wild lands in the unorganized territory of Maine, and the flood protection taxes on Mississippi Delta lands that are guarded by levees, are examples in point. Attention might be directed to many other levies that are predicated in large part, although not entirely, on the benefit principle.

In yet another respect the concept of benefit impinges forcefully upon the field of property taxation. The area over which the millage levy is spread for the support of a given function is ordinarily coterminous with the territorial range of distribution of the benefits arising from the performance of that function. This is true—and by design rather than accident—of a majority of all functions supported by *ad valorem* levies. Rural children may not attend city schools without the payment of special tuition; fire-fighting equipment may not be transported beyond the limits of the city that owns it, unless contractual arrangements have been made prior to an emergency; the hospitality of "county farms" is extended only to persons of established residence within the county. A new function is ordinarily accommodated to the existing pattern of taxing jurisdictions; if this cannot be done except at a serious sacrifice of efficiency in the performance of the function, a geographically distinct *ad hoc* district may be created. Such territorial identification of tax and benefit, which is now firmly imbedded in our fiscal mores, must be attributed in large part to the influence of the benefit principle.

Whether or not a particular function is supported by an *ad valorem* levy may depend on the feasibility of establishing territorial coincidence of levy and benefit. For example, forest fire suppression funds are commonly raised by specific acreage fees, but there is an increasing tendency on the part of those rural counties in which forestry is the predominant type of land use to make the necessary appropriations out of general funds. Again, in Fairfax County,

Virginia (which is partly suburban and partly rural), a flat charge per household is made for garbage collection throughout the closely settled suburban area; in contrast, in the adjoining and entirely urban city of Alexandria this service is financed in entirety by an *ad valorem* levy.

In sum: even though that old gray mare Benefit Theory ain't what she used to be, she still ain't glue.

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Indifference Curves versus Marginal Utility

Would students who are receiving their first instruction in economic principles find the indifference curve analysis leading up to the individual demand schedule less reasonable or more difficult to grasp than the marginal utility analysis which now appears in all elementary textbooks? In view of recent writings in which advantages of the indifference curve analysis are set forth, the possibility of teaching this approach to beginners is becoming a rather important problem.

An experiment along this line was attempted by the writer in a class of 35 students who, with the exception of one or two individuals, had no economic background and were receiving their first introduction to economic principles. The instructor gave an equal amount of time to the two explanations, and endeavored, as carefully as his limited ability would allow, to be as fair, as lucid, and as unbiased in one presentation as in the other. Both theories were shorn of excessive complexity and presented on the level usually maintained for sophomore classes.

After both theories had been presented, the following question was asked: "As an explanation of the demand side of the market behavior of the individual, which theoretical approach seems to you to be (1) more easily understood, (2) more logical, and (3) more nearly in accordance with actual experience—the marginal utility analysis or the indifference curve analysis?"

The verdict of the class was almost unanimous in favor of the indifference curve approach on each of the points. Moreover, a written examination a few days later in which questions were asked concerning each of the two theories indicated that the students had grasped the indifference curve analysis quite as well as, if not better than, the marginal utility analysis.

While this experiment may be merely an exceptional case that proves nothing, since the numbers involved were small and since the students were not informed critics of economic doctrines, it may suggest to other instructors that similar experiments would be interesting to try, or to someone who is now writing an elementary textbook that he include such a presentation. Moreover, it may suggest that a theory which sometimes seems quite difficult to an individual because it does not readily fit in with his previously acquired patterns of thought, may seem much less difficult and unusual when presented to a group of students who have not yet formed any patterns for economic thinking.

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Note on "The Rise of Monopoly"

Leading economists for more than a century after the appearance of the *Wealth of Nations* described the typical economy of the period as essentially com-

petitive in character, with monopoly portrayed as the infrequent exception to the general rule. In recent years, on the other hand, there has been much discussion of a so-called "rise of monopoly" during the past several decades which has transformed the "highly competitive" economies of the past century into the "highly monopolistic" economies of the present.

If one is to approach discussions of the theory of competition and monopoly and of their significance to public policy with proper perspective, it is essential to bear in mind that this "rise of monopoly" is assignable to two developments: (1) an evolution in economic conditions; and (2) an evolution in the use of economic terminology.

Apparently the most common usage of the term "monopoly" in economic discussion has been to imply thereby a condition of complete or exclusive possession or control of some good or service (or of the demand for such good or service), of some combination of such things.

When the term is used in this customary manner, it is apparent that the number of instances of monopoly said to exist in the economy of a country will be dependent upon (1) the number of recognized "objects" of possible monopolization, (2) the size of area within which exclusive possession or control is referred to as "monopoly," and (3) the number of instances of exclusive control present in the recognized areas among the recognized objects of possible monopolization.

Other things equal, the number of monopoly positions ascribed to a given area will be increased by an increase in the number of *recognized* objects of possible monopolization within that area. An increase in the number of commodity or service items as a result of technological or marketing developments—with the proportion of monopolized to the total of items remaining constant—will give rise to *a greater number of instances of monopoly* position. The number of recognized objects of possible monopolization may be increased also by adoption of a more detailed classification of economic goods and services. The greater the refinement of such classification, the greater will be the number of instances of exclusive control, or monopoly, said to be present. If, for instance, all brands of automobiles are lumped together in one commodity class as "automobiles," monopoly would not be recognized as present in a market supplied with a dozen different makes unless one enterprise or combination controlled the supply of all brands. If each brand of automobile, on the other hand, is thought of as a "differentiated commodity," the obvious result of the classification refinement—assuming each brand to be provided by a separate enterpriser—is the "creation" of a dozen monopoly positions and a dozen monopolists. The number of monopoly positions which may be "created" by refinements in the classification of commodities and services is limited, naturally, only by the degree of refinement adopted in such classifications.

Obviously, the smaller the area within which exclusive control is designated "monopoly," the greater will be the number of instances of monopoly position recognized as present. If, for example, the possible monopolization area in the market for undifferentiated "land" is taken as the nation or state, "land monopoly" would not be considered to exist at all in our country. A progressive reduction in the size of territory within which exclusive control by one person or group should be referred to as "monopoly" would result, of course, in recognition of an increasing number of "land monopolies," as such possible monopolization area is reduced from that of the nation or state to that of the county, the township, the municipality, or any other smaller area thought to be worth economic consideration.

Assuming a given number and method of classification of economic goods and services and recognition of given-sized areas as regions of possible monopolization, tendencies which bring increasing proportions of the commodity or service units in a given class or in a number of classes within a given area under unified control and which extend these positions of unified control to broader areas will tend to increase the number of monopolies said to be present.

The "rise of monopoly" since those earlier days of reputedly widespread "pure" or "perfect" competition may be accounted for, therefore, by (1) the addition of new and exclusively controlled commodities and services to the stock of exchangeable items by means of marketing or technical change; (2) the development of additional positions of exclusive control over old commodity and service items and extension of such exclusive positions to greater areas; (3) the adoption, in recent years, of a much more refined classification of economic objects in the literature of economic theory; and (4) a tendency in modern economic writing to break down the broader market areas into a greater number of markets or sub-markets. That portion of the "rise of monopoly" due to the first two developments is the result of significant economic changes. That portion of the "rise of monopoly," on the other hand, which is due to refinement in commodity and market classifications is only a rise in the application of the term "monopoly" to situations formerly not so designated.

A number of significant implications for economic theory and public policy may be drawn from the foregoing considerations. Among the more obvious are the following:

(1) That economists of the Classical School would have recognized much more monopoly in the economies of their time if they had differentiated commodities and markets by the same methods employed in the present literature of imperfect or monopolistic competition theory;

(2) That imperfect or monopolistic competition theorists of today would discover much less monopoly in the modern economy than they do if they followed the less refined usage of the terms "commodity" and "market" adhered to by economists of the Classical School;

(3) That the "monopolists" of present-day economic theory and the "monopolists" of the days of Classical economics are not to be adjudged similar, in all cases, in their economic power and practices merely because they have been designated by the same term; and

(4) That "monopoly" and "monopolists" can be discovered in modern markets customarily referred to (even in some imperfect or monopolistic competition theory) as perfectly or purely competitive by the adoption of still more detailed commodity and market classifications derived from a still more detailed application of the principle of differentiation.

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General Works, Theory and Its History

The Economic Basis of Class Conflict and Other Essays in Political Economy. By LIONEL ROBBINS. (London and New York: Macmillan. 1939. Pp. xiv, 277. $2.25.)

Professor Lionel Robbins of the London School of Economics discusses the problem of the relation between the interests of society and the interests of different groups within society, and the extent to which organizations facilitating group exclusiveness may be the cause of social disharmony.

Although the book consists of a series of essays presented separately over a brief period of years, there is a definite continuity of related interest in the examination of forms of restrictive policy similar to those that are now being investigated by the Temporary National Economic Committee (the Monopoly Investigation) in Washington, D.C.

Today the concept of class conflict is expressed in the attempts of various groups to capture the market through such techniques as state imposed monopoly or monopolist controls within the organization of production in a system of free enterprise. It is a prerequisite of such a system that the market should not be controlled or dominated by any particular set of group interests. Professor Robbins divides his book into two parts. Part 1 deals with this topic under the title of "The interests of groups and the interests of society." Part 2 is concerned with "Government expenditure and economic activity."

In spite of the rise of argument supporting the inevitability of monopoly, Professor Robbins is not disposed to accept completely this interpretation of the problem, nor does he support the contention that monopoly, if generalized, will be easier to control. On the other hand, the system of free enterprise requires the removal of economic restrictions if a greater amount of income is to be available for distribution. Such a process of distribution is dependent on a further clarification of the principles underlying the operations of the market rather than the introduction of artificial prices maintained by protectionist schemes at the expense of other groups in the community. The reviewer was particularly impressed with the parallel provided by this British study in the analysis of more or less concealed relationships of monopoly with other significant social problems such as unbalanced budgets, trade barriers, housing, and even war and peace, that has recently been published under the title of *Organized Scarcity and Public Policy* (by Harry D. Gideonse, Public Policy Pamphlet No. 30, University of Chicago Press, page 5). In the same pamphlet here, too, contrived scarcity is stressed, not only on the capitalistic and entrepreneurial side, but on the part of the farmers, trade unions, and the professions; and political

implications are emphasized, because the contrived scarcities lead to idle men and idle capital, thus building up "a wide and heterogeneous public for silver-tongued orators."

Professor Robbins points out that some of the fallacies of economic nationalism are due to the inability on the part of the supporters of this doctrine to distinguish between property and territory. Thus a citizen of one country has a direct financial return from property owned at home or abroad, but it is an advantage of a different kind, so far as he is concerned, for his government to "own" extensive areas in other parts of the world.

Further emphasis is placed by the author on the fact that policies of restriction, whether in the realm of territorial sovereignty or agricultural planning, have a definite affinity with collectivist planning. Advocates of this type of planning imply that the system of free enterprise is no longer capable of functioning with the rôle of the state in the position of umpire, and that it is now necessary to transfer to the position wherein the state directly or indirectly assumes the position of control formerly exercised by the price mechanism in a free society.

Surely the recent practices of the totalitarian states in Europe are sufficient proof that governmental planning ends in intolerance of minority views and disregard of minority rights, as well as placing the planners and administrators themselves in the position of a new class based on loyalty to the "common cause."

As Professor Robbins' book appeared before the outbreak of the second World War, some of the major proposals in part 2 will have to be postponed for later practical consideration. However, he voices the hope that the democracies of Europe may be preserved in a structure of economic federalism, leading to a United States of Europe, thus finding the basis for a new common expansion that could be the foundation upon which free institutions could be built to endure.

FINDLAY MACKENZIE

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An Outline of International Price Theories. By CHI-YUEN WU. (London: Routledge. 1939. Pp. xii, 373. 15s.)

This comprehensive and careful study was, as Professor Robbins points out in his introduction, commenced when the author was a member of the economics seminar at the London School of Economics and completed "amid the distractions of actual war" (in China). It undertakes to trace the development of the theory of international prices from the early mercantilist period to the present time. Up to a point, perhaps, it seems to duplicate the work of Professor Angell in the same field;[1] but in the thir-

[1] J. W. Angell, *The Theory of International Prices: History, Criticism and Restatement* (Cambridge, 1926).

teen years which have elapsed since the appearance of Angell's book, the theory of international prices has been enriched by a number of significant contributions which have served not merely to point the way to solution of certain difficult problems but also to throw new light on earlier controversies. One might add, however, that Professor Viner's recent book on the theory of international trade,[2] while obviously not concerned exclusively with the monetary aspects of the subject, does devote considerable attention to the history of international price theories and covers much of the recent literature in that field. Hence, the major portion of Dr. Wu's material has been worked over by other writers.

Dr. Wu introduces his study with an excellent outline of the issues which have occupied the attention of international price theorists and is perhaps at his best, throughout the book, when he is engaged in tracing broad lines of development. His exposition of individual theories is, on the whole, satisfactory. He does not overwhelm the reader with a tedious discussion of innumerable minor writers but rather adopts the procedure of selecting the more representative and important writers in each period for detailed consideration. As might be expected, English theorists receive the major share of attention, although the outstanding Continental writers are brought into the discussion at appropriate points. One Continental theorist, whose contributions were largely ignored in English publications prior to 1930 but who has received widespread recognition since that time, is Knut Wicksell. Dr. Wu, in line with other recent writers, assigns to Wicksell a prominent place in the history of the controversy over the "transfer problem" and, indeed, christens the theory which emphasizes the importance of shifts in demand in the paying and receiving countries "the Wicksellian theory of transfer."

Despite the quality of most of his work, Dr. Wu falls down noticeably at certain points. He is perhaps weakest in his attempts at criticism of the various theories under consideration. His critical passages are at times unnecessarily repetitious. His handling of the Bank Charter act controversy is especially disappointing. He dismisses the views of the "Banking School" as "erroneous" while offering an inadequate criticism of the views of the "Currency School." Of least value are the chapters devoted to developments since 1918. Dr. Wu's treatment of the purchasing-power-parity theory runs largely in terms of a criticism of Cassel's early, naïve version and hence fails to provide an adequate critical evaluation of more sophisticated versions of the theory. His handling of the "transfer problem" is more successful, but the reader would appreciate a fuller discussion of the contributions of Robertson and Pigou, which Dr. Wu recognizes as being of some significance. Again, his presentation of Professor Ohlin's attempt to extend the mutual interdependence theory of pricing to the field of international trade leaves much to be desired.

[2] J. Viner, *Studies in the Theory of International Trade* (New York, 1937).

To point to the weaknesses of a book of this kind, however, is not to deny the very real value of Dr. Wu's work. He provides us, particularly for the earlier period, with a scholarly and readable history of international price theories, not the least of whose merits is that it confines itself to manageable proportions.

MARGARET S. GORDON

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Introduction à l'Etude de l'Economie Politique. By GAËTAN PIROU. (Paris: Sirey. 1939. Pp. 303. 50 fr.)

This is a highly commendable, up-to-date treatise on political economy, the fruition of over a decade of teaching. Part 1 is a descriptive exposition of the contours of the vast field of social science of which political economy is a segment. Pirou capably discusses the essentials of recent and past analyses of scientific knowledge. He briefly alludes to the history of the affirmations of social determinism, to him identical with social science. After sketching the elements of the conflict between social determinism and the free will of man, he offers a critical survey of the biological and psychological interpretations of social facts, the general tenets of formal sociology, and the scientific positivism in political, moral and religious sociology. All this is so much spade work indispensable to knowing to what extent and under what conditions political economy can be regarded as a science. While the author is not entering into the comparatively recent debate about the nature of the object of political economy, he offers a carefully considered definition of it, whose major consequences he duly assesses. Discussing those definitions of political economy which deal with the nature of the end pursued and the nature of human conduct, he closes part 1 by briefly summarizing the frontiers of political economy in relation to technology, law, and morality.

Part 2 confines itself to an intricate analysis of the method of political economy. The conflict of methods indicates that a large number of economists, perhaps the majority, regard the positive method of the physical sciences as inapplicable and sterile. In their view the facts of economic life call for their own particular method, giving them a smaller place, and assigning to reasoning a much larger rôle. Pirou offers a critical and constructive statement of the positions of the partisans of the abstract and positive methods. Apparently favoring the possibilities of the tools of research of the positive method, Pirou critically discusses the various modalities of this method: its use of graphs, of statistics, of the monograph, and of the realistic aid of the historical method. He concludes with a balance sheet of the two methods and of mathematical economics.

Part 3 is devoted to a rapid panorama of the history of political economy. Strictly speaking Pirou regards political economy as comprising not

only economic science but also the study of the evolution and influence of its doctrines. Hence a pertinent survey of the main tenets of the principal doctrines throughout recorded history is excellently sketched. It is an up-to-date schematic picture of some of the gross facts of economic, political and intellectual history, without which the appearance, progress and decline of the great doctrinal systems would be incomprehensible.

Part 4 is a critique of the classical plan of dividing political economy into the production, circulation, division and consumption of riches. Pirou's substitute plan includes first the external view of the *cadres* of economic life as constituted by juristic rules and the state of technology. Next it stresses the facts of the internal mechanism of economic life, utilizing the researches of historians, the analyses of institutionalists, and the inquiries of sociologists. Third, political economy devotes itself to a study of the national and international economic problems. A fourth part comes to grips with economic doctrines. Throughout this capable work detailed bibliographical material is quoted, comprising the relevant literature in French, German, English and Italian.

HERMAN HAUSHEER

Taylor University

NEW BOOKS

ADAMS, M. *Getting and spending*. Peoples lib., vol. viii. (New York: Macmillan. 1939. Pp. 125. 60c.)

BAUDIN, L. *Le mecanisme des prix*. (Paris: Lib. Gén. de Droit et de Jurisprudence. 1940. Pp. 153.)

BLAKE, W. J. *Elements of Marxian economic theory and its criticism*. (New York: Gordon. 1939. Pp. viii, 746. $3.75.)

CARLSON, S. *A study on the pure theory of production*. Stockholm econ. stud. no. 9. (London: P. S. King. 1939. Pp. vii, 128.)

CATHERWOOD, B. F. *Basic theories of distribution*. (London: P. S. King. 1939. Pp. 262. 12s.)

CRONIN, J. F. *Economics and society*. (New York: American Book Co. 1939. Pp. xvii, 456. $2.50.)

This book is intended to be "most useful in a general introductory course for one year, given both to general students as a part of a modern liberal arts course, and to business students for the purpose of background and orientation." Part 1 deals with the physical, historical and legal background of modern economic life; with price determination, competition, monopoly and the business cycle; and with economic systems. Part 2 deals with special problems: labor; the consumer; taxation; agriculture; international trade; money and banking; investment and speculation; public utilities and government ownership.

The treatment is the presentation of an economic philosophy with some current factual information as the vehicle. Liberal capitalism, laissez faire, the modern system of finance domination, communism, fascism and moderate socialism are all condemned. Christian social principles only can be the solvent for present-day difficulties.

The author emphasizes the social philosophy of Pope Pius XI in his various

encyclicals. And this is to be achieved by "the corporative spirit . . . as found in Portugal and Italy, rather than the system existing under American corporation law," acting through organizations akin to the medieval gilds, so that "class strife would be replaced by class harmony" (p. 167).

As a descriptive presentation it does not give both sides of the story on controversial matters. Medieval life evidently approximated the Golden Age, while capitalism is responsible for every problem that has arisen since then. Not only has communism nothing to commend it but it has done nothing for Russia, while in Germany, Italy, Portugal and Nationalist Spain "the authoritarian [fascist] state is in many ways an economic and political success" (p. 178). The details in the chapters on problems are selected almost entirely from the period since 1933.

The chapters on value and price, covering 50 pages, give practically no equipment with which to analyze value and price problems; marginal cost is not mentioned, and diminishing utility is defined in historical terms. The business cycle is caused primarily by the failure to give adequate income to the poorer classes (p. 131).

D. F. PEGRUM

DEARLE, N. B. *Economics: an introduction for the student and for everyman.* (London and New York: Longmans Green. 1939. Pp. x, 522. $2.50.)

EUCKEN, W. *Die Grundlagen der Nationalökonomie.* (Jena: Fischer. 1940. Pp. xii, 300. RM. 11.50.)

FANNO, M. *Normal and abnormal international capital transfers.* Stud. in econ. dynamics no. 1. (Minneapolis: Univ. of Minnesota Press. 1939. Pp. xi, 120. $2.)

FENG-TIEN, C. *Economic thought during the last fifty years of the Ch'ing period.* Yenching Jour. of Chinese Stud., monog. ser. no. 18. (Cambridge: Harvard Univ. Press. 1939. Pp. 324. $3.)

GREIDANUS, T. *The development of Keynes's economic theories.* (London: P. S. King. 1939. Pp. 40. 2s.)

This brochure is a criticism of Keynes's *Tract, Treatise* and *General Theory.* The author finds the beginning of Keynes' apostasy in his early writings. Professedly adhering to classical principles, he departed from them slowly and then made a final break. In the *Tract,* Keynes departed from Marshall's conception of the origin of the value of money (p. 4). The equations of the *Treatise* are criticized for reasons which led Keynes himself to revise them in the *General Theory.* What Greidanus does not like is the mechanical character of the equations. He claims that they cannot show causation because they merely classify causes retrospectively. "The simple reason for their failure," he says, "is their departure from the psychical basis used in explaining the motivation of economic phenomena" (p. 19). He does not seem to see that this criticism can be made against all formal theory. We get an explanation by examining data in terms of the formula to ascertain which are actually the causative factors.

The author finally comes to grips with Keynes's view that the motives which determine saving are different from those determining investment and expresses his belief that the classical structure cannot be so easily undermined as Keynes supposes. Greidanus (p. 25) evidences his acceptance of the old view which if true destroys the foundation of the *General Theory.* To the reviewer

he has not, however, given an adequate argument against the Keynesian position. He also criticizes the liquidity-preference theory of interest and concludes that Keynes has had a bad influence upon public policy (p. 39) and that his methods can never yield favorable results (p. 40). The author does not show, however, how to get along without formal equations, nor does he substitute any "real explanations" of his own to account for the failure of the rate of interest to adjust the supply of savings to the demand for capital.

WALTER A. MORTON

VON HABERLER, G. *Prosperity and depression: a theoretical analysis of cyclical movements.* New rev. and enl. ed. (Geneva: League of Nations. New York: Columbia Univ. Press. 1939. Pp. xix, 473. $2.)

Except for the insertion of one new chapter, this volume has undergone only minor revision. Nonetheless the additional material, undertaking a review of recent literature bearing on the business cycle, in particular the views of Mr. Keynes, fills a gap which existed in the first edition and serves to bring the book up to date. Nearly 90 pages are devoted to a detailed discussion of some of the more controversial aspects of the Keynesian schema.

Professor Haberler approaches this topic from the standpoint of reconciling, where possible, the new theories with older received doctrine. In this task he achieves noteworthy success: his contribution should be on the "must" list of everyone who would understand the Keynesian approach and its relation to more orthodox economic reasoning.

The new material opens with a lucid discussion of the question of the "necessary" equality of investment and savings. Keynes's position is compared with that of Robertson and with the Swedish *ex ante* analysis: the differences are clearly shown to be terminological and not substantial.

Perhaps his most noteworthy pages are those Professor Haberler devotes to a comparison of the Keynesian theory of interest with the analysis running in terms of the demand and supply of loanable funds. Keynes's tendency to ignore his "transactions motive" to liquidity is shown to be the source of many apparent differences. When it is recognized that a shift of funds from transactions to speculative uses and *vice versa* may occur, many of the seemingly paradoxical Keynesian dicta with respect to the lack of any relation between changes in the marginal efficiency of capital or in savings and the rate of interest are reconciled with the more conventional approach.

Examination of the interest rate problem is followed by an excellent discussion of the multiplier, wherein the logical nature of this device is contrasted with the practical difficulties of applying what is directly valid only of the individual (the marginal propensity to consume) to the community as a whole. Consideration of the theory of under-employment shows it to rest on the assumption of sticky wages.

Some readers may wish, with the reviewer, that Professor Haberler had carried his task of revision a little farther, in particular to the clarification of the sections dealing with the capital-shortage and the under-consumption theories. The treatment of these topics still leaves one feeling that they are not resolved as completely as might be possible. Nonetheless, with the revision provided in this edition, Professor Haberler's volume remains the best and most thorough general treatment of the business cycle available.

P. T. ELLSWORTH

HASKELL, G. D. *Questions and problems in economics.* To accompany: FAIRCHILD, FURNISS, and BUCK, *Elementary economics,* vols. i and ii, 4th ed. (New York: Macmillan. 1939. Pp. viii, 88.)

HEMPEL, E. H. *Industrial political economy: the fundamentals.* (New York: Pitman Pub. Corp. 1939. Pp. xiv, 454. $3.50.)

Ostensibly, this short book is an appeal from "theories and academic thinking" to the "true dynamics of economic action" as deduced from industrial history. The sketch of developing industrial organization and policy, from "Greece and Athens" to the present, is mainly conventional as far as it goes, but thin, disjointed and dull. It furnishes little support for the generalizations concerning the lessons of history which marks the volume off from ordinary cram-books. A good sample of these lessons will be found on page 42, comparing ancient Rome with fascist Italy; or the statement on page x of the preface may spare the judicious reader from subjecting himself to the rest.

MELVIN M. KNIGHT

HUGHES, R. O. *Fundamentals of economics.* New ed. (Boston: Allyn and Bacon. 1939. Pp. 528. $1.80.)

HUTCHISON, T. W. *The significance and basic postulates of economic theory.* (New York and London: Macmillan. 1938. Pp. x, 192. $3.)

The author of this book studied under Joan Robinson at Cambridge, before becoming lecturer at the University of Bonn, Germany. He is a positivist in philosophy and, though he assails certain propensities of neo-classical economists, his general approach to economics is that characteristic of this group. Beyond bald assertions—such as the gibe by Pareto at the opponents of mathematical economics, which is given a place of honor between the title-page and preface—not much is said in justification of these theoretical positions.

Within the limits thus indicated, Mr. Hutchison has treated the logic of economics. He deals with methods of reasoning and criticizes a number of familiar economic concepts, such as *ceteris paribus,* the notion of a fundamental economic principle, and that of a tendency toward equilibrium. Not all his conclusions are likely to meet with general acceptance but the discussions are suggestive and the controversial style that is adopted helps to drive home the arguments employed. Since most economists have made no special study of logic and are apt to reason loosely at times, probably there are few who would not profit from reading the book. The technique followed with regard to footnotes and quotations, however, may be found tiresome.

While his book is useful on the negative side, constructively Mr. Hutchison has less to offer. He suggests that the term "law" should be reserved for empirical generalizations, of which Gresham's law is an example. Such laws, he says, "it is the central object of science [including economics as he visualizes it] to discover." Aside from the matter of terminology, this is the viewpoint of many economists, and it is the basis of much of the realistic study that has been undertaken in the field. But Mr. Hutchison speaks of statistical verification as if it were relatively simple. It has to be remembered that statistics reflect "life as a whole," including responses to all kinds of stimuli, concerning many of which economists—as such—know little. Data often refer to phenomena remotely related to the things in which the economist is interested. Interpretation, therefore, presents a more serious problem than the author of this book appears to realize.

EDMUND WHITTAKER

IRVINE, W. *Walter Bagehot.* (London: Longmans Green. 1939. Pp. 303. 12s. 6d.)

KEESING, F. A. G. *Het evenwichtsbegrip in de economische literatuur.* (Purmerend: Muusses. 1939. Pp. 199. F. 3.50.)

KOLHATKAR, V. Y. and KOGEKAR, S. V. *An introduction to economics.* (Poona: Dastane Brothers' Home Service. 1939. Pp. 180.)

KOREY, E. L. and RUNGE, E. J. *Economics: principles and problems.* (New York: Longmans Green. 1939. Pp. xi, 687. $1.80.)

The outstanding feature of this high-school textbook in economics is that it is comprehensive enough to satisfy the requirements of most state and large-city courses of study. It also contains sufficient traditional material as well as institutional material to satisfy a large section of our teaching body. A limited but adequate and meaningful treatment of the theories of wages and interest is included. Ample explanation (5 pages) is given to the quantity theory of money so that it really means something to the immature student. The logical, clear and detailed development of the theory of market price should please any classicist. On the other hand, the instances in which our economic system plays Puck are also represented. The inclusion of discussion on chain-store legislation, deposit insurance, institutional theories of the business cycle, loss leaders, and monopolistic competition indicates the up-to-dateness of the book. Twenty-five pages are given to such social controls as minimum wage and maximum hour laws, social insurance, and the Fair Labor Standards act. The critical examination of both the contributions and limitations of the publications *Consumer's Union* and *Consumers' Research* as aids to the consumer is only one of a number of instances in which the authors show that they have not been overwhelmed by the gloss of novelty.

JOSEPH P. CROWLEY

LESCURE, J. *Des crises générales et périodiques de surproduction.* Tome I et II. (Paris: Domat-Montchrestien. 1938. Pp. xvi, 445; 453-702. 100 fr. les deux vol.)

LINVILLE, F. A. *An outline of economic principles and problems.* (New York: Saga Press. 1939. Pp. 217.)

Questions are adapted for use with texts by Atkins and Magee, Ault and Eberling, Bye, Bye and Hewett, Deibler, Ely, and Fairchild, Furniss and Buck.

LOGAN, H. A. and INMAN, M. K. *A social approach to economics.* (Toronto: Univ. of Toronto Press. 1939. Pp. xvi, 659. $3.75.)

MYRDAL, G. *Monetary equilibrium.* Translated from the German by ROBERT B. BRICE and WOLFGANG STOLPER. (London: Hodge. 1939. Pp. xi, 214. 12s. 6d.)

The long awaited translation of Professor Myrdal's important essay finally makes available to English and American economists one part of the thought of the virile Swedish school. Unfortunately, eight years have elapsed since its first publication in Swedish, during which time the center of interest and emphasis in monetary theory has veered away from the Wicksellian analysis, as is shown by a comparison between the *Treatise* and the *General Theory* of Mr. Keynes. Rather than revise and rewrite the book completely, the author very wisely decided to "avoid changes other than those intended to make the text clearer and more consistent."

The method of exposition followed is that of "immanent" criticism of Wicksell's thought. The latter, sensing the superficiality of the quantity theory of

money and equation of exchange, attempted to build up concepts which would coördinate monetary theory with the theory of central price formation, and which would at the same time break through the straight-jacket of Say's law of markets. This culminated in his formulation of equilibrium as being achieved only when (1) the money rate of interest is equal to the natural rate, (2) saving equals investment, (3) the price level of consumer's goods remains constant. Professor Myrdal is at his best in showing how the concept of the natural rate of interest must be modified when applied to a monetary society, and how these three criteria for equilibrium are not mutually consistent. The fundamental one to be retained is the second in which savings and investment *ex ante* must be equal. In the absence of this equality a one-way, cumulative, dis-equilibrating movement is generated. Chapter 5 on "Savings and investment" is to be particularly recommended. The last chapter is refreshing in view of prevailing methodological misconceptions.

Fundamental inadequacies of the book from more recent points of view are an undue emphasis upon the importance of price and interest rate movements as compared to those of output and employment, insufficient stress upon the passive reaction of consumption and savings to changes in income. Most important is the lack of realization that monetary equilibrium in the author's sense could conceivably involve 50 per cent unemployment in addition to frictional and structural (monopolistic) unemployment so that it in no sense represents a proper goal of policy. Moreover, according to a rigid assumption of passive consumption, monetary equilibrium might be achieved at any level of income depending only upon the level of net investment.

PAUL A. SAMUELSON

PARKES, H. B. *Marxism: an autopsy.* (Boston: Houghton Mifflin. 1939. Pp. 299. $3.)

Despite the flamboyance of the title, the book gives a thorough-going discussion of the social movements of our age and a penetrating review of the Marxian system of thought. The author subjects to an impressive critique the Marxian theory of history, of the statics and the dynamics of capitalist society and especially the politics of Marxism. He successfully answers the question why the proletarian revolution failed to come in the economically and socially advanced countries but did come in backward Russia by pointing out that the organized labor movement is society's policeman against a leftist revolution. He correctly points out that Marx's forecast of the collapse of capitalism had little to do with the Hobsonian theory adopted by the New Deal but everything to do with the falling rate of profit due to a rise in the proportion of "constant" capital to "variable" (or payroll) capital.

The author is a progressive who wishes to see capitalism reformed to provide security for the masses but not *via* a planned economy which he insists leads to dictatorship. He proposes a forcible reduction of the rate of interest and a recognition of the worker's property right in his job but with wages left completely flexible. Beyond that he contemplates a transformation of the capitalistic corporations into producers' coöperatives, and national and international economies based on a free market. To the reviewer this plan appears as a throw-back to the "greenbackism" of the sixties of the past century with its ideal of the escape from the wage system into "self-employment" *via* the coöperative workshop buttressed up by an access to "free" capital. The author

does not explain how he would solve the management problem in these co-operatives.

S. Perlman

Roll, E. *A history of economic thought.* (New York: Prentice-Hall. 1939. Pp. 430. $3.)

This volume, first published in England in 1938, has now been brought out as an addition to the Prentice-Hall economics series. As the book is limited to approximately 400 pages, the treatment of the subject is necessarily brief, and many well known names have been omitted. The basis of selection of material is clearly stated in the introduction. "First, apart from the most outstanding economists of the past, only those have been included whose contributions to economic thought appear to have significance in relation to present-day theory and controversy. Secondly, stress has been laid both on writers and views which exemplify most clearly different trends of thought" (p. 18). The author's judgment on these points is indicated by the distribution of space. For example, 10 pages are devoted to Thomas Mun, 10 to the Physiocrats, 11 to Senior, 14 to Sir William Petty, 15 to John Stuart Mill, 18 to Ricardo and 32 to Adam Smith. The discussion of socialistic criticism and the doctrine of Marx covers 67 pages, or one-sixth of the entire book. For purposes of comparison we may note that in Haney's history the discussion of socialistic thought comprises less than one-seventeenth of the total space.

Professor Roll states that his book is "based on the conviction that the economic structure of any given epoch and the changes which it undergoes are the *ultimate* determinants of economic thinking" (p. 16). Although he points out that the economic factor is the determinant only in the final analysis, his discussion represents a somewhat rigid economic interpretation of history. This perhaps explains a tendency to draw rather sweeping conclusions without detailed examination of conflicting evidence. For example, the rise of mercantilism is explained in definitely economic terms, with little attention given to state-making as a basic consideration. In opposition to the views of Schmoller and Professor Heckscher the mercantilists are described as having considered state-making important only because a strong state could best further and protect their economic interests. Obviously this is a question that invites extended argument.

Considering its brevity, the book presents a good discussion of the development of economic thought, from the author's particular point of view. Some of the topics are very skillfully treated, especially those dealing with the early development of economics and the rise of classicism. There is also a short but useful working bibliography. It is to be regretted, however, that the author has not attempted a more careful evaluation of conflicting views on the various controversial questions. American readers, moreover, will note the lack of consideration of economic thought on this side of the Atlantic. Certainly it would seem that a chapter might have been devoted to American contributions, including, of course, a discussion of Veblen and the rise of institutionalism.

J. E. Moffat

Ross, E. J. *What is economics? A brief survey of our economic life.* (Milwaukee: Bruce Pub. Co. 1939. Pp. x, 275. $2.)

Dr. Ross, in addition to thorough academic training in several universities,

has had seven years of business experience, which have contributed to the solidity and practicality of her book. For the most part the discussions are of timely interest—the sit-down strike and the totalitarian state come in for attention; "corporatism" and "distributism" are not overlooked. The volume contains questions for study based on the text and a selected bibliography.

Declaring in the foreword that "there is a general dissatisfaction with the present economic system," Miss Ross expresses her own dissatisfaction with a number of practices common to, if not inherent in, the capitalistic economy. The ethical note runs through Miss Ross's book, and the social point of view is expressed. Sympathy is shown for the worker; the author declares that he "needs to have a regular fixed income on which he can depend" (p. 118). One of the longest chapters of the book is devoted to "Workers' risks and working conditions" (ch. 10.). Social insurance is given generous space, and it is pointed out that "America, backward in all matters of social insurance, lags behind the rest of the world's industrial nations in old-age pensions also" (p. 127). Seven groups of enumerated government services indicate the expanding function of the state which "has an ever-increasing work to perform" (p. 204).

On the other hand, the business cycle is not discussed; and the inadequate description of our present confused monetary problems leaves one in a state of confusion.

The "disastrous consequences of *laissez faire*" (p. 242) are referred to, and a planned society is held "essential to a system which retains an urban economy and the benefits of the division of labor by large-scale production" (p. 242).

ROCKWELL D. HUNT

SOMBART, W. *Weltanschauung, science and economy.* Translated by PHILIP JOHNSON. (New York: Veritas Press. 1939. Pp. ix, 60. $1.)

This is a translation of the volume *Weltanschauung, Wissenschaft und Wirtschaft* reviewed by Dr. Karl Bode in December, 1938, p. 766.

STIRK, S. D. *German economics reader.* (London: Pitman. 1939. Pp. xii, 121. 5s.)

TAUSSIG, F. W. *Principles of economics.* Vol. II. 4th ed. (New York: Macmillan. 1939. Pp. xvii, 595. $3.)

This volume of the new edition has most of the characteristics of the earlier work. Of the 72 chapters, three are distinctly new and two have been thoroughly rewritten. The three new chapters are "Business profits and corporate management" (50), "Monopoly gains" (51), and "Social security" (61).

In order to keep the classical order in developing the theory of the distribution of wealth the author treats interest, rent, wages and profits together with over-production, over-investment, crises, the business cycle, population, inequality and its causes, and great fortunes. Recognizing the difficulty of obtaining a strictly consecutive and logical outline of so vast a subject, the reviewer sees very little justification for treating the subject of wages in two distinct places in Book V, the distribution of wealth (chapters 41, 42 and 52, 53), and then the wage system in Book VI, "Labor" (chapter 58). Since, however, these volumes were designed for "intelligent and educated" persons and not for elementary students the author's arrangement may be as valuable as any. For the mature student the books are an adequate and effective presentation of the principles of economics.

CURTIS HUGH MORROW

TAUTSCHER, A. *Ernst Ludwig Carl (1682-1743), der Begründer der Volkswirtschaftslehre.* (Jena: Fischer. 1939. Pp. vii, 161. RM. 7.50.)

VLEUGELS, W. *Zur Gegenwartslage der deutschen Volkswirtschaftslehre: eine Sammlung von Aufsätzen über die Gegenwartslage, das Erbe und die heutigen Aufgaben der deutschen volkswirtschaftlichen Theorie.* (Jena: Fischer. 1939. P. xi, 148. RM. 6.)

WINKEL, M. G. *Work-hour value.* (Boston: Meador Pub. Co. 1939. Pp. 268. $2.)

"In this volume the author outlines a new theory of value, the basic idea being that the real *value* in the economic system is not the commodities produced by work, but the *work-hour* itself, and the law of supply and demand should apply directly to work-hours, as it is the value of the work-hour which fluctuates, and not the value of goods. . . . The standard theories of money and prices are reviewed briefly, for the purpose of showing where they have been inadequate to explain present-day phenomena, followed by the presentation of a theory of prices based on work-hour value."

Economic History and Geography

The Economic Bases of Peace. By ERNEST MINOR PATTERSON. (New York: McGraw-Hill. 1939. Pp. 264. $2.50.)

In this sober work, Professor Patterson makes an analysis of the basic forces underlying present economic conflict and an evaluation of the various solutions that have been attempted. Growing world economic interdependence in conjunction with our capitalistic set-up and increasing government intervention in economic affairs have produced a dilemma. We are confronted with conflicting interests, some of which demand freer and international economic relationships while others "are best served by nationalistic action." No program serving the one set of interests to the exclusion of the other is feasible.

There is ample evidence that increasing strains have produced problems which demand a new adjustment. But before such an adjustment is attempted, there must be some agreement as to objectives. The author lists as minimal desiderata the avoidance of military and destructive economic conflict, a general increase in world productivity, greater economic stability, economic and national security, and a less uneven distribution of wealth. But, he warns, no "single form of organization or any one line of conduct will provide an adequate answer." He then attempts an evaluation of each of the main solutions advocated by individuals, groups, and nations, under the headings Capitalism, Autarchy, Internationalism, Intranationalism, Regionalism, and World Economy. Each approach has its contribution to make, but each has also its very definite limitations. Furthermore, no particular adjustment, however satisfactory at the moment, can be more than ephemeral; for that solution in itself produces a situation demanding further readjustment, the chain being apparently endless.

Recent events seem to bear out the pessimism of the author, and to sub-

stantiate his belief that few of us are rational in our mental processes. Perhaps the best indication of his point of view is found in his attitude toward central planning: though it appears to be well-nigh impossible, the situation is such that we may have to do the impossible!

Better organization of material would have prevented repetition and some possible ambiguity. For example, the section on the spread of industrialization, in chapter 10, would have appeared to greater advantage in the previous chapter, while that on intranationalism (chapter 12) might logically have been covered in the chapters entitled autarchy and internationalism. Lastly, in the chapter on internationalism the author deals rather with the limitations of internationalism, though, in the reviewer's opinion, the positive case for the economics of internationalism, in this era of attempted national self-sufficiency, is more important than ever before. But these minor flaws do not detract materially from the work as a whole. As an able analysis of the world's economic dilemma and attempted solutions, it will be invaluable to students of economics.

LORNE T. MORGAN

University of Toronto

The Vampire Economy: Doing Business under Fascism. By GUENTER REIMANN. (New York: Vanguard. 1939. Pp. xvii, 350. $3.00.)

The system of business enterprise depends ultimately on habits that make men look upon private property as peculiarly inviolable and upon its continual accumulation as of prime importance to the community. It is this common-sense attitude that has made modern politics essentially a business-oriented politics, and that has been the final guaranty of the going business system against undue encroachment by non-business interests. However, when a ruling group can entrench itself in sentiments other than the common sense of property and contract—and when, regardless of its avowals, it can wield the coercive powers of the state for its own purposes—then the traditional business order is in peril of its existence. Business-men in Germany and Italy have become aware of this in recent years. Many of them welcomed the movements of Hitler and Mussolini as weapons that would destroy the threat of openly anti-capitalist forces, but they have learned that these weapons are also destructive of their security. Thorstein Veblen, with characteristic farsightedness, once said: "The net outcome of the latter-day return to warlike enterprise is, no doubt, securely to be rated as fostering a reversion to national ideals of servile status and to institutions of a despotic character. . . . Authenticity and sacramental dignity belong neither with the machine technology, nor with modern science, nor with business traffic. . . . Their logical outcome is an abatement of those cultural features that distinguish modern times from what went before, including a decline of business enterprise itself."

Mr. Reimann tells in detail of the political corrosion of private enterprise in Nazi Germany. His wide information and sober realism enable him to throw a revealing light on the forces that rule Germany today, and make his book an important one. Although he has little to say about Fascist Italy, many of his conclusions are an accurate commentary on political and economic processes in that country. Moreover, Mr. Reimann's book has implications for the whole world of capitalist enterprise. And it can be read with genuine profit by those defenders of business institutions who would find their champion in a "strong-arm" government.

Every part of the German business system, Mr. Reimann shows, has been subordinated to the necessities of the higher politics. True, private ownership and direction of the business firm have been formally maintained. But in serving its own interests, the parasitic ruling group has penetrated more and more into the traditionally private realms of enterprise. However, Mr. Reimann believes that on the eve of war (when his book was completed) absolute power had not entirely taken the place of money power. It was smaller business-men, especially shopkeepers, who had been hardest hit by the political circumscription of the market. Big business-men might still make profits and use their money to win favors from the bureaucracy. But they had lost their grip on economic affairs. They could no longer invest their money as they pleased. Instead, they had to sink their surplus funds in taxes and "contributions" or government securities or dubious plant expansions, as commanded by the state. Governmental intervention in the labor, capital, and commodity markets, and the necessity of catering to the officials, raised enormously the costs and anxieties of business administration. Yet business-men were obliged to applaud the policies of the state, not only because they feared even more coercive measures but also because they dreaded that they might lose everything if the dictatorship should collapse. Mr. Reimann concludes: "The system thus is a strange mixture of state interference and planning combined with private management—an economic system which is neither competitive capitalism nor the planned economy of state socialism nor state capitalism. It is so bewildering in its complexity that the capitalist no longer knows whether he is a capitalist or whether he has become a mere agent of the state."

The great extension of state controls in the interests of war economy, the throttling of mass consumption and diversion of private capital into armaments industries, have created tremendous armies and vast quantities of war materials. But they have also resulted in such wearing down of human and material resources, in such widespread mistrust and corruption, in such a general sapping of the community's morale, as to make doubtful the ability of the state "to stand the strain of a real totalitarian war for any length of time." In any event, war will hasten the destruction of private business enterprise. "The totalitarian dictatorship will become more ruthless

in its attitude toward business-men as well as toward the workers and middle classes. The so-called radicals among the party bureaucracy will claim that their program has been fulfilled after the expropriation of most private property holders, while simultaneously the ruin of the middle classes will be completed and the workers will be exploited on an unprecedented scale." Unfortunately, a long war will also produce in other belligerent countries many of the conditions that underlay the rise of German and Italian Fascism.

CARL T. SCHMIDT

Columbia University

The Economic Recovery of Germany from 1933 to the Incorporation of Austria in March, 1938. By C. W. GUILLEBAUD. (London and New York: Macmillan. 1939. Pp. xiv, 303. $3.25.)

Mr. Guillebaud's economic history of the first five years of the Nazi regime is the story of one of the most exciting economic experiments ever witnessed, *viz.*, the more or less complete change in the economic order of a highly industrialized country. But Mr. Guillebaud does not draw this conclusion from the facts presented. Even the title of the book is an understatement. "Economic recovery" does not characterize the period from 1933 to 1938 in Germany, nor does the book attempt to emphasize the change in the economic order which went far beyond the aims of the original recovery program. Mr. Guillebaud is, of course, conscious of the fundamental differences between the economies of, say, Germany and England. He warns that greatest caution must be observed in applying the experience of Germany to countries with a different type of institutional and economic "background" (p. 233). It seems to me, however, that the main shortcoming of Mr. Guillebaud is due to this very mistake: that he looks at the National Socialist economy with an admiration which rests on a somewhat mistaken comparison of systems which, in fairness to both of them, simply cannot be compared as to single problems and policies (like unemployment) but must be compared in the totality of their economic, general political, and cultural structure.

Chapter 1 gives a description of the historical background from the stabilization of the mark to von Papen's and von Schleicher's recovery programs. Chapters 2 and 3 describe the first and the second Four-Year Plan respectively. Mr. Guillebaud's report is as exhaustive as can be expected in a book that wants to address the general public as well as the professional economist. Mr. Guillebaud is probably right in assuming that the statistical material provided in Germany is as accurate as that of other countries (p. vi). However, he not only uses the statistical material but accepts (because of his desire to be absolutely fair and objective) the official German interpretation of the material, thus giving, by the way, a good

example of the lectures now typical for German universities. (Example: we are made to believe that autarchy, as aimed at under the second Four-Year Plan, will really increase the standard of living (p. 106)).

Too many chronological and factual subdivisions make it difficult for the inexperienced reader to see the main trends of the development; and chapter 4 on "Prices, wages, labour policy, standard of living" does not quite succeed in its attempt to summarize. New facts are presented and the presentation is often again devoid of the necessary criticism. The statement that in 1937 the standard of living of the population as a whole had "about regained the level of 1928" is highly problematic and certainly not sufficiently supported by the statistical material as presented in the book and its analysis. (*Cf.*, the more careful studies by Thomas Balogh, *Economic Journal,* Sept., 1938, or Emil Lederer, *Social Research,* Feb., 1938.) The paragraphs on labor policy are especially one-sided, giving almost exclusively the official German viewpoint without indicating the negative implications of the new regulations.

Chapter 5 on "Some basic features of the National Socialist economic system" tries to show the enormous extent and complexity of state regulation and interference" (p. 218). But instead of discussing the most interesting problems connected with central planning, *i.e.,* with the fundamental change of the economic order in Germany, the author reminds us that German National Socialism is opposed in principle to state management and that nothing is more abhorrent to the Germans than the suggestion that there is any parallel between their system and that of Soviet Russia (p. 220).

It is only fair to remember that the book was concluded in December, 1938. But even by that time it was clear to any student of the problem that the trend was decidedly away from private initiative and enterprise. It is true that many leading personalities in Germany believe that the whole development is due only to exceptional circumstances. But we are not allowed to base our conclusions merely on official utterances, especially when many official statements to the contrary could likewise be quoted. Some theoretical analysis is indispensable and it turns out to be the main weakness of the book that it tries to refrain nearly entirely from theoretical discussions (p. v).

The most interesting chapter from a scientific point of view is the last one (6) on "Germany in full employment." It investigates among other problems the question how far full employment can be maintained under normal conditions. Mr. Guillebaud suggests that "there are strong *prima facie* grounds . . . for believing that Germany's economic well-being today is not vitally bound up with rearmament . . ." (p. 260). Again he does not see, however, that it is in all probability not a question of whether "private investment and demand will take the place of public investment

and demand" (p. 259) because the Nazi government does not want, and cannot afford, to risk the fluctuations of unregimented investment and demand. It is to be expected that the improvement in the standard of living which will be made possible by a decrease in unproductive expenditure will take a collective form rather than that of waiting for private initiative, even if the necessary production programs are carried through by "private" firms.

The few concluding remarks on *"Paragraphengeist"* and "bureaucratism" show clearly how insufficiently the main disadvantages of the German system are analyzed in comparison with the most careful enumeration of its advantages.

Despite all these critical remarks the book is certainly an important publication. Far from being obsolete because of the events in 1939 it will be of great help to those who want to acquaint themselves with the facts about Germany; and it is perhaps especially useful just because the facts are presented somewhat in the light of the National Socialist ideology.

GEORGE N. HALM

Tufts College

The Rise of Modern Industry in Sweden. By G. A. MONTGOMERY. (London: P. S. King. 1939. Pp. viii, 287. 10s. 6d.)

The purpose of this volume is to give an account of the growth of modern economic society in Sweden. The book is divided into five chapters, the first of which deals with the period before the rise of modern industry in Sweden, or roughly to about 1800. The topics covered are agriculture, the iron industry, the timber trade, transportation and commerce, and crafts and "manufactures." In the second chapter, the author discusses later developments in these fields and the problems which arose, such as those pertaining to the growth and well-being of the population, tariffs, banking and foreign trade. The third chapter, entitled "The progress of industrialization, 1870-1914," is devoted to a discussion of the basic economic activities and the growth of the export industries. This period encompassed the building of the railroads, significant strides in banking, the beginnings of social insurance and effective factory legislation, and the growth of labor legislation. In the fourth chapter, the war and post-war period is treated. The fifth chapter is a concisely written summary and analysis of the conclusions drawn. The book also contains an adequate index and a helpful map.

In a brief and illuminating discussion of Sweden's economic growth from 1914 to 1929, the author reiterates some of the conclusions set forth in his earlier work, *How Sweden Overcame the Depression.* The prosperity of the later 1920's is ascribed to "forced national saving." The blockade policy and the submarine warfare of the belligerents reduced consumption within the country. Industrial wages lagged behind costs of living, at least

in the earlier part of this period. "In this way a large export surplus was created. . . . A considerable part of the export and shipping surplus of the war years was devoted to the reduction of pre-war debts abroad, and large amounts of Swedish bonds were repatriated. . . . The final outcome was that Sweden became an exporter of capital." In the early 1920's, however, the country's economic strength was taxed by a process of deflation, which had to be even more drastic in Sweden than in the United States, for example, since "the previous rise in prices had been more extensive in the former country." The deflation crisis caused an increase in the debt burden and seriously affected wage costs.

The industrial expansion of Sweden in the 1920's was more powerful than that of most other European countries. "In subsequent years the difference was even more striking. Whereas industrial production in Sweden in 1937 was about 50 per cent higher than in 1929, the general European figure (exclusive of Russia) rose only about 10 per cent above the 1929 level." Real wages in the manufacturing industries have risen appreciably in recent years, and "the standard of life of the Swedish industrial worker seems now to be on much the same level as that of the British." The increasing scope of social policy and government interference in general has no doubt "deprived the economic life of the country of some of that elasticity and 'self-adjusting' power which was the boast of the liberal era. . . . Industry has been made to carry a heavier burden than before and to acquiesce in the organization of labor and the expansion of social legislation and social service, but for the rest it has been left to manage its own affairs." The character of business competition has, of course, changed from what it was before 1914. In Sweden, as elsewhere, the large concern has become a significant factor in the economic life of the nation, but "in spite of the big concern and the cartel, competition has remained very keen." In contrast to the rather one-sided picture of Swedish economic society, as if it were synonymous with the activities of the Coöperative Union, which has been so widely portrayed in this country in recent years, the author of this volume, who is a Swedish economist, devotes only one paragraph, one-third of a page long, to the consumers' coöperative movement. The share of the consumers' coöperatives in the total retail trade turnover in 1930 was 10.9 per cent, and in 1937 perhaps a little more than 11 per cent.

S. A. Anderson

Rensselaer Polytechnic Institute

Prices and Wages in England from the Twelfth to the Nineteenth Century. Vol. I. *Price Tables: Mercantile Era.* By William Beveridge, and Others. (London: Longmans Green. 1939. Pp. lx, 756. $12.00.)

The background of this extensive and luxurious set of volumes is the

work of J. E. T. Rogers, whose monumental ***Agriculture and Prices in England*** is well known. The present work, however, begins earlier, continues later, omits raw material, and has been compiled by a large staff of workers rather than one pair of hands. Whether the present magnificent effort will do more than refine Rogers' averages for the period covered remains to be seen.

After Sir William Beveridge had made a study of medieval wheat prices on the Winchester manors, he was brought into the joint enterprise being launched in America by Professor Edwin F. Gay under the auspices of the Social Science Research Council and with the support of the Rockefeller Foundation. This was an international study of prices in England, France, Germany, Austria, Holland, Spain, and the United States. Hamilton had already begun work on Spanish prices as Beveridge had on English. Although the results of this coöperative study vary in fullness and technical excellence, they have already brought the subject of price history to a higher level.

The work sponsored by Beveridge and largely done by others is scheduled to appear in four volumes. The first deals with the prices of supplies bought by institutions in or not far from London, chiefly during the period 1550-1830. The second will be made up of the prices of farm products during the period 1155-1550. The third, which will be most eagerly awaited by many, is to contain wheat prices, 1155-1937, and also wages. The fourth is apparently to be a catch-all volume of reviews and appendices, decennial tables, tables of prices in silver equivalents, and index.

The present volume, the first, is just a foretaste of what is to come. The prices of wax, straw, paper, hops, coal, meat, spices, cloth, naval stores, and so on, come from schools, hospitals, and supply departments of the government. The many problems of weights, measures, qualities, and freight charges (included in prices) are dealt with; the exposition of difficulties and uncertainties is explicit and satisfying if not disarming. Whether it would not have been sufficient to deposit this part of the material in the form of one typewritten copy in each of four great libraries in the world might be open to debate. As an economic historian, however, I should not like this; for it is just this exposition of difficulties that gets nearest to reality in the whole treatment of the subject.

There are two principal types of actual price material presented. The primary tables include annual averages for an institution or place in terms of shillings and decimal parts thereof. The secondary tables are made up of annual price-relatives which are a percentage of the mean price for the basic period 1720-44. Thus, we note that not only are there few or no actual transactions recorded but there are no index numbers and none are contemplated in any of the four volumes.

The first volume of the four indicates that the work will be of greater value to the statistician than to the economist and of greater value to the economist than to the economic historian. All scholars, however, will applaud the gradual completion of a work which embodies industry, accuracy, and technical competence.

N. S. B. Gras

Harvard University

Social and Economic History of Germany from William II to Hitler, 1888-1938: A Comparative Study. By W. F. Bruck. (Cardiff: Univ. of Wales Press. 1938. Pp. xv, 292. 12s. 6d.)

This important book tries to combine the viewpoints of the historian, the sociologist and the economist, following Emil Lederer's statement, quoted as a motto, that "there is no economic history without the use of theoretical conceptions."

It is the leading idea of Professor Bruck's book that "there has been a certain logical sequence in Prussian-German history. In a nutshell, it was and is the expression of cameralism, the peculiar German type of mercantilism" (p. xv). While Great Britain shook off mercantilism in the eighteenth century in a steady development of liberal ideas, Germany's mercantilism developed into state socialism (p. 26). Liberalism (used always in the European meaning) was only of episodic significance in Germany, who was a late-comer in the world market, politically and economically weak, and obliged to economize her limited resources (p. 43). There were only a few laissez-faire economists in Germany, but the influence of Prussian mercantilism and the ideas of Marx were strong (p. 48-49). What there was of a liberalistic-capitalistic nature in the German economic development "was only a reflection of temporary circumstances"; and the theories derived from that period were valid only as long as these circumstances prevailed (p. 74). Large-scale enterprise, cartels, the German banking system and the social reform are discussed as so many evidences for the state-socialist character of the German economy from 1888 to 1914, much in the same way as in the program of *Wirtschaftsdemokratie* which was the last important publication of the Gewerkschaftsbund in 1928. This document and the most interesting discussion following its publication have unfortunately not been used by Professor Bruck.

Germany's war-time economy of 1914-18 and its influence upon the post-war attempts of carrying through a program of socialization is used by Professor Bruck as further proof for the underlying thesis of the book. This thesis does not succeed however, in explaining why "there was in reality very little desire for socialization" (p. 154), in spite of the alleged permanent tendency toward state socialism and in spite of the strong pressure upon the Social Democratic Party to find something that could be

presented as socialism. The complete failure of the state-socialist attempts under the Weimar Reich is certainly not compatible with Professor Bruck's main thesis. Professor Bruck, not able to say anything in defense of his proposition, simply remarks that the Third Reich followed directly the model given by the Weimar Reich (p. 162), which is true only to a very limited degree.

The following discussion of recovery and crisis during the Weimar Reich is weak and not without minor mistakes. In chapter 4 on the Third Reich we find the correct statement that "despite some inconsistencies brought about by the emergency character of the economic system and the transitional state of economic affairs . . . the strong note of a socialist planned economy is evident" (p. 210). But when Professor Bruck points out that "the change from capitalist-entrepreneur . . . to a civil servant of industry marks . . . no new event in German development" (p. 211) we become again doubtful whether the author arrived at his correct conclusion through a real insight in the fundamentally changed character of the German economy under the Nazi regime, or whether he was simply extrapolating his basic trend on the grounds of the thorough regimentation in Nazi Germany.

There is no doubt that much can be said for Professor Bruck's main thesis of the importance of mercantilist ideas in the German development—if it is not overstated. It explains many particulars of the German economy; but it certainly does not prove that state socialism was always the norm and liberalism only a short-lived exception. It is on the contrary true that despite the 1918 revolution there was no important change in the fundamentally capitalist character of the German economy up to the Nazi regime. Professor Bruck does not consider that only the totalitarian economy can dispense with the more or less automatic regulation of the exchange economy through a reasonably free pricing process and that 1933 therefore marks the beginning of a new epoch which is only superficially similar to the period from 1888 to 1932. Professor Bruck's one-sidedness is probably due to a misconception of the capitalist- or exchange economy which he misinterprets as an economy of perfect and pure competition (*cf.* p. 97).

George N. Halm

Tufts College

NEW BOOKS

Bettelheim, C. *La planification soviétique.* (Paris: Rivière. 1939. Pp. ii, 335. 45 fr.)

Dr. Bettelheim spent several months in Russia on a special mission for the French Ministry of Education and studied conscientiously a vast mass of soviet statistics and literature in Russian. He went over to Moscow with a spirit of admiration (*confiance admirative*) and profound hope for the future of the soviet state. He returned considerably disillusioned.

Nevertheless he presents an impartial picture and a profound knowledge of the Russian planning system and technique and what this implies—namely, price policy, wages regulation, foreign trade, etc. He points out many defects in the preparation and in the execution of the plans but is inclined to find an explanation of such defects in the somewhat nebulous "causes": a much too low level of productive forces, the low level of the production technique, social fights and absence of a democracy.

As a seemingly ardent believer in the Marx-Engels idea of a general economic planning, Bettelheim is unable to concede that a compulsory general economic planning eliminating all private initiative is inevitably creating a monstrous Leviathan state.

M. Bettelheim did not see Russia during the NEP period (1921-27) or else he would not make the assertion that it was a complete failure and that the soviet government turned to the five-year plan in a desperate disappointment over the NEP. Just the opposite: the soviet government was frightened by the great success of the laissez-faire policy and began to introduce various restrictive measures on private trading (high discriminative taxes, actual prohibition of trade in agricultural commodities, etc.; see the reviewer's book: *The Economic Policy of Soviet Russia,* p. 68 *ff.*), fearing that the restoration of the bourgeois economy might undermine the faith in the superiority of socialism.

PAUL HAENSEL

BRAILSFORD, H. N. *Democracy for India.* (London: Fabian Society. 1939. Pp. 15.)

CHUAN-HUA, L. *Japan's economic offensive in China.* (London: Allen and Unwin. 1939. Pp. 179. 7s. 6d.)

DAWES, C. G. *Journal as ambassador to Great Britain.* (New York: Macmillan. 1939. Pp. ix, 442. $5.)

DIEHL, K. *Der Einzelne und die Gemeinschaft: Uberblick über die wichtigsten Gesellschaftssysteme vom Altertum bis zur Gegenwart—Individualismus, Kollektivismus, Universalismus.* (Jena: Fischer. 1940. Pp. viii, 346. RM. 16.)

VON GADOLIN, C. A. J. *Die Volkswirtschaft Finnlands und ihre weltwirtschaftlichen Verflechtungen in der Nachkriegszeit.* Kieler Vorträge 60. (Jena: Fischer. 1939. Pp. 24.)

GRAS, N. S. B. and LARSON, H. M. *Casebook in American business history.* (New York: Crofts. 1939. Pp. viii, 765. $5.)

HARPER, L. A. *The English navigation laws: a seventeenth-century experiment in social engineering.* (New York: Columbia Univ. Press. 1939. Pp. xiv, 503. $3.75.)

HEISS, F., editor. *Deutschland und der Korridor.* (Berlin: Volk und Reich Verlag. 1939. Pp. 311.)

HISHIDA, S. *Japan among the great powers: a survey of her international relations.* (New York: Longmans Green. 1940. Pp. xv, 405. $3.50.)

JONES, C. L. *Guatemala: past and present.* (Minneapolis: Univ. of Minnesota Press. 1940. Pp. xii, 420. $5.)

LANDON, C. E. *Industrial geography.* (New York: Prentice-Hall. 1939. Pp. xxviii, 811. $4.)

Industrial geography, the author states, is a division of the field of economic geography and deals especially with the geography of production in extractive, genetic, and manufacturing industries. Commerce and tertiary indus-

tries remotely connected with natural environments receive scant attention. Geographic and cultural determinants are explained for each industry, but descriptive material predominates.

For the United States the industrial-unit basis of treatment is used; for other nations, the country basis. Attention is given to national economic problems and the general dependence of territorial specialization upon interregional and international trade. In the material on the United States, the conservation of resources is given special emphasis. Diagrams and other illustrative material are well balanced with textual discussion.

This volume seems best adapted for college students who are likely to have only one course in the general field of economic geography, though it may also be used for geography or foreign trade majors to follow or precede more technical courses.

ROBERT B. PETTENGILL

LUNT, W. E. *Financial relations of the Papacy with England to 1327*. Pubs. of Mediaeval Acad. no. 33. (Cambridge: Mediaeval Acad. of America. 1939. Pp. xv, 759. $6.)

LYON, L. S., WATKINS, M. W. and ABRAMSON, V. *Government and economic life: development and current issues of American public policy*. Vol. I. (Washington: Brookings Inst. 1939. Pp. xvi, 519. $3.)

MCFERRIN, J. B. *Caldwell and Company: a southern financial empire*. (Chapel Hill: Univ. of North Carolina Press. 1939. Pp. x, 284. $3.50.)

Dr. McFerrin's volume is an extraordinarily competent, blow-by-blow account of the rise and fall of a financial empire. Caldwell and Company—at the height of its success known as the "Morgan of the South"—came into prominence at the end of the war and crashed into an inglorious end in 1930.

In a short but active life, Caldwell and Company became an influential factor in various southern enterprises: insurance, banking, industry and newspapers. It controlled more than a half-billion dollars of assets; as a powerful holding company, it directed other holding and operating companies. The fundamental cause of collapse was dishonesty or, in the author's more euphemistic language, failure to "exercise due restraint in the use of other people's money" (p. 246).

One can hardly quarrel with Dr. McFerrin's suggestion that, in the absence of competition, effective government regulation of investment banks is necessary. What constitutes effective regulation is not indicated and perhaps need not be in an institutional study limited to a single financial house.

HARRY HENIG

MANNICHE, P. *Denmark a social laboratory: independent farmers; co-operative societies; folk high schools; social legislation*. (Copenhagen: Gad. New York: Oxford Univ. Press. 1939. Pp. 215. $1.25.)

MORRIS, R. B., editor. *The era of the American Revolution: studies inscribed to Evarts Boutell Greene*. (New York: Columbia Univ. Press. 1939. Pp. xi, 415. $3.75.)

Contains articles on "The effect of the Navigation acts on the thirteen colonies" by Lawrence A. Harper; "Labor and mercantilism in the revolutionary era" by Richard B. Morris.

MYERS, G. *The ending of hereditary American fortunes.* (New York: Messner. 1939. Pp. 401. $3.50.)

QUARANTA, F. *Ethiopia: an empire in the making.* (London: P. S. King. 1939. Pp. xx, 120. 7s. 6d.)

Treats of agricultural and economic development. A survey of the methods which Italy is using in developing the country.

RAUSHENBUSH, S. *The march of fascism.* (New Haven: Yale Univ. Press. 1939. Pp. 355. $3.)

Mr. Raushenbush's thoughtful book deserves many readers. The details of his story are by now fairly well known, but they are decidedly worth telling again, and telling in the whole. For his aim is something more than to describe the rise of the fascist dictatorships in Europe and their challenge to the traditional world of liberalism. It is to remind us that many of the forces underlying fascism are also at work in America. "Where unemployment is widespread, where millions have little hope of a decent life, where words like 'Liberty' can no longer be connected with a steady job and some sort of future, where the liberal parties have only words and the appeal to history—there is the soil of fascism." Democracy means more than political formulae. If it cannot be brought down to the earth of common men, giving them security and a vital part in the community's affairs, then democratic ideals must lose their mass support. Mr. Raushenbush believes that, fortunately, we still have in America a big reserve of social strength which gives us time to conquer the menacing forces. But the time is not infinite. We must act now to put reality into the avowals of democracy, and we must do it on our home front. The task requires a strong state, but one whose strength is rooted in the people.

CARL T. SCHMIDT

REINHARDT, C. W. *An outline of Roman history: constitutional-economic-social.* (St. Louis: B. Herder. 1939. Pp. 287. $2.)

SATTERLEE, H. L. *J. Pierpont Morgan: an intimate portrait.* (New York: Macmillan. 1939. Pp. 611. $3.75.)

SENIOR, C. *Mexico in transition.* Pamph. ser., vol. vi, no. 9. (New York: League for Industrial Democracy. 1939. Pp. 54. 15c.)

SILBERNER, E. *La guerre dans la pensée économique du XVI^e au XVIII^e siècle.* Tome VII. (Paris: Recueil Sirey. 1939. Pp. v, 301. 70 fr.)

STARKEY, O. P. *The economic geography of Barbados: a study of the relationships between environmental variations and economic development.* (New York: Columbia Univ. Press. 1939. Pp. xii, 228. $3.)

STEVENS, H. R. *The Ohio Bridge.* (Cincinnati: Ruter Press. 1939. Pp. xiii, 213.)

THOMAS, N. and SEIDMAN, J. *Russia—democracy or dictatorship?* (New York: League for Industrial Democracy. 1939. Pp. 71. 75c.)

WALKER, E. R., assisted by ANDERSON, D. L. *The Tasmanian economy in 1938-39: a survey prepared on behalf of the State Finance Committee.* Stud. of the Tasmanian econ. no. 9. (Hobart: Govt. Printer. 1939. Pp. vii. 47.)

WELLS, R. G. and PERKINS, J. S., compilers. *New England community statistical abstracts: social and economic data for 175 New England cities and towns.* Prepared for the Industrial Development Committee of the New England Council. (Boston: Boston Univ. Bur. of Bus. Res. 1939. Pp. 368. $3.50.)

WHITE, W. A. *The changing West: an economic theory about our golden age.* (New York: Macmillan. 1939. Pp. vii, 144. $1.50.)

The general thesis of Mr. White's book is that "the West became what it was because of a vast increment of wealth from the rising price of the virgin land of the 24 states that were erected beyond our western colonial border in the nineteenth century," and that it is the decline of this increment which has brought much of the farmers' distress. Doubtless most economists would agree that this increment has been a very significant factor in the West, but would insist that the rise and decline of increment was generally a result rather than a cause of underlying economic changes. Mr. White's book is, however, much more than an analysis of the results of the rise and decline of the increment, as he modestly states it. His book is an analysis of the various changes that have come to the agrarian, middle-class West—changes in religious, intellectual, social and political ideals, as well as in economic circumstances. And, finally, it is an analysis of the forces working to undermine our democracy. Covering so wide a field, the author inevitably comes to some conclusions which will be questioned; but the great Emporia editor knows his West as few men know it, and his book is replete with wise and penetrating observations. While he sees the seriousness of the situation that has developed since the World War, he is not hopeless of democracy, but believes that the democratic process "awkward, sluggish, often sadly wasteful, and sometimes corrupt despite our ideals" may find solutions for our problems, because "people in the long run have sense."

J. ISE

WHITTLESEY, D. *The earth and the state: a study of political geography.* (New York: Holt. 1939. Pp. xvii, 618. $3.75.)

ZEITLER, R. and MEWES, B. *Statistisches Jahrbuch deutscher Gemeinden.* 34. Jrg., Lief. 2. (Jena: Fischer. 1940.)

Anuario estadistico, 1938. (Mexico: DAPP. 1939. Pp. xi, 302.)

The business and financial record of World War years. (New York: Seibert. 1939. Pp. 427. $6.)

Economic and industrial survey of New Haven, Connecticut. (New Haven: New Haven Chamber of Commerce. 1939. Pp. 113. $2.)

Among the topics discussed are: population, industrial development, nonemployment, consumer purchasing power, trade, banking, and transportation facilities. In addition to the text are maps, charts and statistical tables.

Fascist era year XVII (28th Oct. 1938-27th Oct. 1939). (Rome: Fascist Confed. of Industrialists. 1939. Pp. 212.)

The northern lakes states region. (Washington: Nat. Resources Committee. 1939. Pp. 35. 10c.)

Statistical abstract of Palestine, 1939. (Jerusalem: Govt. Printer. 1939. Pp. xxi, 181. 4s.)

Statistical year-book of the League of Nations, 1938-39. (Geneva: League of Nations. New York: Columbia Univ. Press. 1939. Pp. 330. $2.50.)

Contains many new statistical tables relating to mortality by sex and by age groups; to fertility and reproduction rates; to meat production; to rayon and staple fiber production, and to indexes of industrial production.

J. C. ROCCA

The structure of American economy. Part I. *Basic characteristics.* Report prepared by the Industrial Section under the direction of GARDINER C. MEANS. (Washington: Supt. Docs. 1939. Pp. vii, 396. $1.)

World economic survey: eighth year, 1938-39. (Geneva: League of Nations. New York: Columbia Univ. Press. 1939. Pp. 247. $1.50.)

The eighth issue of this annual survey contains a new and interesting chapter on the economic effects of war rearmament and territorial changes.

J. C. ROCCA

Agriculture, Mining, Forestry, and Fisheries

The Agricultural Industries. By DEAN W. MALOTT and BOYCE F. MARTIN. (New York: McGraw-Hill. 1939. Pp. viii, 483. $4.00.)

The authors, members of the faculty of the Harvard Business School, set out "to present the business aspects of purchasing, processing, financing, and marketing the chief agricultural raw materials entering into American industry and commerce, and to analyze the business problems peculiar to these industries . . ." (p. v). The scope of an "agricultural industry," as they use the phrase, is exceedingly broad. They begin by correctly observing (p. 1) that "much attention has been paid to the problems of the farmers, but seldom has this interest extended to the importance of the handlers and the processors of agricultural commodities and their relation to the products sold." After a brief discussion of the distinctive features of the agricultural processing industries in comparison with other strictly manufacturing industries, they plunge into a detailed discussion of seven principal groups of "agricultural industries." This term then takes on the broader scope of production as well as of processing and distribution.

The reader who is already fairly well acquainted with the production and marketing channels of the main agricultural products will probably feel, with the reviewer, that the authors would have made a far greater contribution if they had confined themselves to a more careful analysis of the narrower field of processing alone, where much certainly yet needs to be done. As it is, a very important part of the book is of necessity merely repetition of materials already adequately covered in some of the better agricultural marketing textbooks, at the expense of a more careful analysis of the processing "bottleneck" in the movement from farm to consumer where concentration of control is most marked.

The seven "industries" covered include the dairy industry, livestock and meat-packing, cotton and cotton textiles, grain, sugar, tobacco, and wool and woolens. All seven sections follow a rather uniform pattern, describing production of the raw material, its assembly, financing, and processing, and the distribution to the consumer of the finished product. Each section also contains a brief discussion of government control and concludes with an all-too-brief appraisal of current problems in the given industry.

The dairy industry is inadequately treated, especially for products other than fluid milk. So broad is the ground covered that very little insight is given into the operating problems of the leading dairy products distributors. The authors, in pressing the point of view that both producers and processors need to recognize their basic identity of interests (*cf.* p. 458), argue none too convincingly (p. 54) that "the majority of successful distributors are those who have the farmers' interest at heart, and are eager to pay as high a price as possible in order to obtain milk which meets with their quality standards." A somewhat more analytical approach might have eliminated such "window dressing."

Similarly, the constancy of the leading packers' purchase percentages in buying livestock is virtually dismissed in a footnote (p. 109; 125), the authors presenting the theoretically naïve argument that "the necessity of using the plant and equipment as much as possible to reduce overhead costs makes it important for the packers to maintain their position in the market; otherwise another packer might secure a competitive advantage by operating at a higher capacity and thus securing lower unit costs." The imperfections in the competitive structure introduced by such oligopoly situations as are common in the agricultural processing industries are not mentioned.

Again, the authors ignore recent economic theory by arguing (p. 354) that "the huge volume of advertising sponsored by the major cigarette manufacturers would seem to indicate that a state of intense competition exists among them. It is surprising, therefore, to hear complaints of monopoly and collusion." Finally, the authors find "overcapacity" in a number of the leading processing industries, but present little or no analysis showing to what extent the price and production policies of the firms in these industries brought this about. While there is nowadays a tendency among economists to see a monopolist behind every tree, the authors seem to be open to criticism because they cannot even see the trees, so broad in scope are their efforts.

William H. Nicholls

Iowa State College

Agriculture in the Twentieth Century. Essays on Research, Practice and Organization to Be Presented to Sir Daniel Hall. By A. W. Ashby and Others. (New York: Oxford Univ. Press. 1939. Pp. x, 440. $5.00.)

As stated in its preface, "this volume of essays has been planned to cover the more important developments, scientific, technical, and administrative, during the years in which Sir Daniel Hall has been a leader in the world of British agriculture." The fifteen essays by as many authors cover a wide range of subjects. Among those concerned with economic aspects are "Agri-

culture and the civil service" by H. E. Dale; "Agriculture and the state" by J. A. Venn; "Agricultural conditions and policies, 1910-38" by A. W. Ashby; and "The farmer's business" by C. S. Orwin.

The essay by Mr. Dale is a review of governmental organization devoted to agricultural questions and of recruiting of personnel for such work. Dr. Venn considers briefly governmental policies with respect to agriculture, giving particular attention to the post-war. He brings out some illuminating comparisons between recent programs and those of earlier days. Professor Ashby's appraisal of British agricultural policy since 1910 is of particular interest to anyone concerned with agricultural policy. Those who advocate settlement of unemployed on the land might well note his conclusion with respect to small holdings in England that "until the experience of 1919-26 is forgotten the state is not likely to indulge in any campaign for a rapid increase in their numbers" (p. 67). Another observation which may well be mulled over in this country is that "it will be a sorry day for British agriculture when, in a state retaining its essentially capitalist character, it depends much more upon subsidies (or whatever they may be called) than it does today. Society and the state are not in the habit of paying paupers at rates which do not leave them substantially in the position of paupers in relation to the rest of the community" (p. 85).

Mr. Orwin's discussion draws mainly upon his field of special interest, farm management. It includes an excellent statement of the characteristics of farming as a business. He points out the place of research in the formulation of agricultural policy even though "policy is determined, often, more by political expediency than by economics" (p. 142). He uses research on the size of the farm unit as an illustration and concludes that "a national land policy which is designed to promote closer settlement must be justified by political rather than economic considerations" (p. 145).

Sir E. John Russell, who succeeded Sir Daniel Hall as director at the Rothamsted Experiment Station, in his essay on "Soil science in England" relates how the statistician, R. A. Fisher, became associated with the work of that institution. Under the leadership of his predecessors, extensive data had been assembled from experimentation and observation. These data were found suited to statistical analysis and the task was assigned to Mr. Fisher with results which have modified technical research procedure and attracted the attention of statistical workers generally.

J. A. Hanley in an essay on "Agricultural education in college and county" reviews the development of agricultural education. One interesting point brought out is that a professorship in rural economy was established at Oxford as early as 1796. An essay by Sir John Boyd Orr on "Agriculture and national health" is suggestive of the increasing attention being given to improvements in nutrition as a way of aiding agriculture. Sir R. George Stapledon's essay on "Grassland" deals with a phase of land use

which is receiving much consideration. This and the other essays, however, are concerned more with technical than with economic problems. This book is well worth the time of those who are interested in agricultural development and progress.

O. B. JESNESS

University of Minnesota

NEW BOOKS

ABRAMS, C. *Revolution in land.* (New York: Harper. 1939. Pp. xiv, 320. $3.)

This book offers a contribution to economic theory in dethroning land as the chief claimant in the distribution of wealth as set forth by Ricardo and his followers. Two stimulating chapters discuss the evolution of the economics of land from the Physiocrats to Marx, Henry George and Veblen and end with the observation that as far as land is concerned "the study of economic theory, orthodox and unorthodox, ends in disappointment. . . . Since Henry George there has, in fact, been little serious fundamental theorizing on land economics, though much invaluable work has been done on zoning, housing, conservation, and other practical applications" (p. 188). The author's own version is that with the development of modern industrial economy "land has become the heritage of the underprivileged," nominally owned in small tracts by millions of farmers and urban home owners. The general property tax weighs heavily upon the small land owners, rural and urban, placing a burden upon them all out of line with the ability to pay and forcing over-development and premature land uses.

The submergence of the farm under a dual price system—"monopolized" industrial prices and prices arrived at under fierce competition of farmers—is traced. The uneven distribution of wealth is held to be primarily responsible for rural tenancy and the mortgage encumbrance of farms and urban homes is given a prominent place. The 25 billion dollars of mortgages held by institutional lenders give unusual economic power to these mortgage holders (p. 113).

A chapter is devoted to the New Deal agencies concerned with land in which the author examines the constantly growing financial investments of the federal government in land. Up to March, 1939, the federal government had spent 6.4 billion dollars for "land relief" through the various alphabet agencies from H.O.L.C. to A.A.A. and "still the land lies prostrate" (p. 264). His solution consists of a number of suggestions for improvement of taxation, mortgage reform and better appraisals for immediate action but the ultimate solution is land nationalization with the part left for private ownership not well defined. The reason for this drastic step is not to curb speculation (which he considers of minor importance) or the taking of economic rent for public purposes but because "socialization of profits has given way to socialization of losses" (p. 284). He also suggests greater social control over land, more planning, accompanied by the expansion of the powers of the federal government, including land taxation, but with no undue and unbalanced concentration of power in Washington.

GEORGE S. WEHRWEIN

ASTOR, W. A. and ROUNTREE, B. S. *British agriculture: the principles of future policy.* New ed. Pelican spec. (New York: Penguin Books. 1939. Pp. 284. 25c.)

BAKER, O. E., BORSODI, R. and WILSON, M. L. *Agriculture in modern life.* (New York: Harper. 1939. Pp. vii, 303. $3.50.)

The authors writing independent essays have presented here their views on the ailments of rural life in our modern world. Each view is to a large degree unique, but has been expressed frequently enough elsewhere to be associated with the author. This should be sufficient warning that they do not meet ready acceptance by many agricultural economists.

Mr. Baker presents the longest of the essays. He is a Malthusian in reverse, and is genuinely alarmed over the declining rate of population growth, the various phases of which he demonstrates with an imposing array of data. The city and its way of life is by implication chiefly at fault. The cities fail to maintain their population from their own stock and attract a constant stream of rural youth whose cost of rearing is borne by the country. Moreover, this process accelerates a transfer of land and agricultural wealth into absentee city landlord's hands and increases tenancy in the country. Mr. Baker appears to believe that the higher reproductive rate in the country is indicative of more sound fundamental values in that life than in city life. He is sure that ways must be found to maintain more of our population in rural life, even at the expense of smaller farms, if we are to prosper or even to avoid political and social disaster.

Mr. Borsodi believes that the difficulty with agriculture is that we have tried to make a business enterprise out of what is essentially a way of life. His solution for the farmer would be to think less about making money and selling in the market and to produce more goods for home consumption and do more things for himself. We need in short to build up a more self-sufficing type of agriculture. Mr. Borsodi rightly points out that a large share of agriculture has never been other than of this type, but he would have difficulty in demonstrating that this is the best and most satisfying part of farm life. It is more probable that many of these self-sufficing farmers look with envy at their more commercial neighbors and would emulate them if possible.

Mr. Wilson brings to his discussion a background of vigorous farm work in early years on an Iowa farm and a long period of active extension work with farmers in Montana. His memory is too vivid to swallow the proposals of a return to the good old days of self-sufficiency. He recognizes advantages in electric lights, automobiles, radios and telephones and contrasts the present life on many farms with the lack of physical comforts and exhausting toil of the old days. He would maintain that we cannot turn back but must adapt what is good of the new to the enduring values of the old. In the closing chapter he outlines his own philosophy which has come to underlie much of the New Deal agricultural program.

WARREN C. WAITE

BENNETT, M. K. *Wheat and war, 1914-18 and now.* Wheat studies, vol. xvi, no. 3. (Stanford University, Calif.: Food Research Inst. 1939. Pp. 67-112. $1.)

DAVIS, J. S. *The world wheat situation, 1938-39: a review of the crop year.* Wheat studies, vol. xvi, no. 4. (Stanford University, Calif.: Food Research Inst. 1939. Pp. 113-203. $1.25.)

EDWARDS, E. E. *A guide for courses in the history of American agriculture.* Bibliog. contrib. no. 35. (Washington: U. S. Dept. of Agric. Library. 1939. Pp. viii, 192.)

FARNSWORTH, H C. *"World" wheat stocks 1890-1914 and 1922-39.* Wheat studies, vol. xvi, no. 2. (Stanford University, Calif.: Food Research Inst. 1939. Pp. 39-66. 75c.)

GORHAM, H. M. *My memories of the Comstock.* (Los Angeles: Sutton House. 1939. Pp. 222. $2.50.)

The significance of the Comstock Lode in American mining history is unique. Some few titles have appeared on the subject in the last five years. Mr. Gorham's small but informative volume contains much for the student interested in the later period of the Lode's development. Residing in Virginia City and being in intimate association with all important personalities, the author has tabulated many important incidents not to be found elsewhere.

CECIL G. TILTON

HENDERSON, H. D. *Colonies and raw materials.* Pamph. on world affairs no. 7. (New York: Farrar and Rinehart. 1939. Pp. 31. 15c.)

HOTCHKISS, W. E., and others. *Mechanization, employment, and output per man in bituminous-coal mining.* Vols. I and II. Rep. no. E-9. (Philadelphia: WPA, Nat. Res. Project. 1939. Pp. xxx, 175; 176-436.)

HUBBARD, L. E. *The economics of soviet agriculture.* (London and New York: Macmillan. 1939. Pp. xii, 316. $4.)

JONES, J. H., CARTWRIGHT, G. and GUENAULT, P. H. *The coal-mining industry.* (London: Pitman. 1939. Pp. vii, 382. 16s.)

KINGSTON, J. *A lei estatística da demanda do café.* (Rio de Janeiro: Serviço de Publicidade Agricola. 1939. Pp. 75.)

LEÃO, J. *Mines and minerals in Brazil.* (Rio de Janeiro: Centro de Estudos Economicos. Pp. 243. $1.)

LIVELY, C. E. and TAEUBER, C. *Rural migration in the United States.* Res. monog. xix. (Washington: Supt. Docs. 1939. Pp. xxi, 192.)

MCPHEE, D. G. *A business approach to farm surpluses.* (Washington: Nat. Assoc. of Food Chains. 1939. Pp. 80. Gratis.)

MYERS, W. M. *Problems and trends in the mineral industries of Pennsylvania.* Exp. Sta. bull. 27. (State College, Pa.: Pennsylvania State Coll. School of Mineral Ind. 1939. Pp. 91. 50c.)

PARERA, M. F. and PALAU, A. *Diferenciación de las variedades de trigo por sus características de gluma y grano.* Pub. no. 42. (Buenos Aires: Comisión Nacional de Granos y Elevadores. 1939. Pp. 198.)

ROUSH, G. A. *Mineral industry, 1938.* Vol. 47. (New York: McGraw-Hill. 1939. Pp. 783. $12.)

SCHILLETTER, J. C., ELWOOD, R. B. and KNOWLTON, H. E. *Changes in technology and labor requirements in crop production: vegetables.* Rep. no. A-12. (Philadelphia: WPA, Nat. Res. Project. 1939. Pp. xiv, 131.)

SHOLLENBERGER, J. H. and CASTIGLIONI, J. M. *Estudio sobre el trigo molido por molinos argentinos en el año agricola 1937-38.* Pub. no. 40. (Buenos Aires: Comisión Nacional de Granos y Elevadores. 1939. Pp. 100.)

VANDERCOOK, J. W. *King Cane: the story of sugar in Hawaii.* (New York: Harper. 1939. Pp. xii, 192. $2.50.)

VREELAND, F. M. and FITZGERALD, E. J. *Farm-city migration and industry's labor reserve.* Rep. no. L-7. (Philadelphia: WPA, Nat. Res. Project. 1939. Pp. xii, 67.)

WARNER, C. A. *Texas oil and gas since 1543.* (Houston: Gulf Pub. Co. 1939. Pp. 494. $5.)

Agricultural statistics, 1939. (Washington: Supt. Docs. 1939. Pp. 597. 60c.)

Agriculture in the twentieth century: essays on research, practice, and organization to be presented to Sir Daniel Hall. (New York: Oxford. 1939. Pp. 450. $5.)

Combines Investigation act: investigation into an alleged combine of wholesalers and shippers of fruits and vegetables in western Canada. Rep. of Commissioner, Oct. 31, 1939. (Ottawa: Dept. of Labour. 1939. Pp. 91. 25c.)

Cost of living in the coöperative villages. (Tel-Aviv: Audit Union of the Agric. Coöp. Soc. 1939. Pp. 15.)

Documentation for the European conference on rural life, 1939. (Rome: Internat. Inst. of Agric. 1939. Pp. 370. L.25.)

Economic power: hearings, 76th Congress, 1st session, authorizing and directing a select committee to make a full and complete study and investigation with respect to the concentration of economic power in, and financial control over, production and distribution of goods and services. Part 7. *Milk industry, poultry industry.* (Washington: Supt. Docs. 1939. Pp. 2751-3282. 75c.)

Grain trade year book, 1938-39. (Winnipeg: Sanford Evans Stat. Serv. 1939. $1.50.)

Memoria correspondiente al año 1938. (Buenos Aires: Junta Reguladora de Vinos. 1939. Pp. 192.)

Our energy resources. (Washington: Nat. Resources Committee. 1939. Pp. 42. 10c.)

Report of the Secretary of Agriculture, 1939. (Washington: Supt. Docs. 1939. Pp. iv, 169.)

La standardización del trigo en Australia. Pub. no. 43. (Buenos Aires: Comisión Nacional de Granos y Elevadores. 1939. Pp. 96.)

A survey of research in forest land ownership. Report of Special Committee on Research in Forest Economics. (New York: Social Sci. Res. Council. 1939. Pp. 93. 60c.)

Manufacturing Industries

NEW BOOKS

CHUTE, A. H. *Marketing burned-clay products, including an analysis of location, importance and development of the industry.* (Columbus: Ohio State Univ. 1939. Pp. xx, 374.)

LYNSKY, M. *Supplement: sugar economics, statistics, and documents.* (New York: U. S. Cane Sugar Refiners' Assoc. 1939. Pp. xiv, 206-426. $1.)

The original volume was noted in the *Review* of June, 1939 (p. 573). The *Supplement* contains additional data, bringing the subject matter up to date. It includes statistical tables, reproduction of documents, and appendices.

MCNEILL, C. E. and JONES, H. F. *Nebraska's electric power development in relation to municipal service.* Nebraska stud. in bus. no. 44. (Lincoln: Univ. of Nebraska Coll. of Bus. Admin. 1939. Pp. 88.)

ROBINSON, H. W. *The economics of building.* (London: P. S. King. 1939. Pp. xii, 162. 10s. 6d.)

After a convenient description of the organization of the building industry, the author constructs a theoretical schema, first under stationary and then under dynamic conditions. Population movements are considered in their vari-

ous aspects followed by an investigation into the effects of the different types of demand for and supply of houses. Rents are determined by the interplay of the demand and supply schedules for occupation; house prices, however, are affected only by demand for ownership.

WOLFGANG F. STOLPER

Earnings and hours in the meat-packing industry, 1937. (Washington: Supt. Docs. 1939. Pp. 31.)

The leather industry of the United States. (Washington: Supt. Docs. 1939. Pp. 12. 5c.)

Price research in the steel and petroleum industries. Prepared for the Conf. on Price Res. Price stud. no. 3. (New York: Nat. Bur. of Econ. Res. 1939. Pp. xiii, 170. $2.)

Textile markets: their structure in relation to price research. Rep. of Committee on Textile Price Res. to the Conf. on Price Res. Price stud. no. 2. (New York: Nat. Bur. of Econ. Res. 1939. Pp. xx, 266. $3.)

Transportation and Communication

NEW BOOKS

DUNCAN, C. S. *The answer to highway propaganda.* (Washington: Assoc. of Am. Railroads. 1939. Pp. 20. Gratis.)

GORMLEY, M. J. *Railway capacity and traffic control.* (Washington: Assoc. of Am. Railroads. 1939. Pp. 63.)

PARMELEE, J. H. *The modern railway.* (New York: Longmans Green. 1940. Pp. xiv, 730. $4.)

RANKIN, E. R., compiler. *Government ownership and operation of the railroads: debate handbook.* Ext. bull., vol. 19, no. 2. (Chapel Hill: Univ. of North Carolina Press. 1939. Pp. 110. 50c.)

SUMMERS, F. P. *The Baltimore & Ohio in the Civil War.* (New York: Putnam. 1939. Pp. 304. $3.)

SUMMERS, H. B. and SUMMERS, R. E., compilers. *The railroads: government ownership in practice.* (New York: Wilson. 1940. Pp. 139.)

Investigation of railroads, holding companies, and affiliated companies. Parts 20-21. (Washington: Supt. Docs. 1939. Pp. xxi, 8569-9064a, xxiii; xxxiv, 9065-9552, xxviii.)

A yearbook of railroad information. 1939 ed. (New York: Committee on Public Rel. of the Eastern Railroads. 1939. Pp. 96.)

Trade, Commerce, and Commercial Crises

Turning Points in Business Cycles. By LEONARD P. AYRES. (New York: Macmillan. 1939. Pp. xiii, 214. $2.75.)

In this book Colonel Ayres makes contributions of a statistical as well as an economic character. The statistical contribution consists of two new series displaying listings of American corporate securities. No compilation on this subject has hitherto been available with respect to the period before 1906; the new series in this book carries our information back to 1863.

The new data on security issues cover only listings on the New York Stock Exchange. Data for the years 1863-1881 cover only bonds; but, starting with 1882, listings of corporate stocks are also presented. Separation of refunding issues from those for new capital proved to be impossible; but the securities issued for property were eliminated. Securities issued by financial corporations, by governments and by foreign obligors were also eliminated. The purpose of the new series is to measure the flow of investment money into American corporations. Monthly totals of actual sales prices, rather than par values, are reported (Appendix A).

The economic contribution made by this volume is to describe one line of causation of cyclical fluctuations, and to demonstrate the importance of the causes thus described. To explain the theory which Colonel Ayres thus presents, it is convenient to divide our business history into two parts: the period prior to the federal reserve system and the period since 1913.

In both periods the volume of business has been controlled chiefly by the flow of new money derived from the issue of securities. The controlling factor is the total volume of new issues, not the amount of debt created (p. 127). Business follows total new issues with a normal lag of 4 to 6 months (p. 67).

Securities are issued by governments as well as by business. Business corporations cannot readily be financed when the security markets are falling (p. 162). Stock prices normally follow bond prices, (p. 65). The volume of security issues follows both with characteristic lags.

Short-term interest rates have but little direct effect on the volume of business (pp. 116-118); but rates of bank interest exert great indirect effect through the prices of securities. Peak prices of bonds tend to occur about 6 months after the low point in commercial interest rates, and the lowest level of bond prices occurs normally about 3 months after commercial interest rates have reached their peak.

Before the establishment of reserve banks, the rates of commercial interest were a function of the reserve ratios of banks. Reserve ratios are affected by variations of deposits as well as by variations in the amount of cash held by banks; but the latter element is more significant. The record of the years 1831-1914 reveals therefore a pattern of business cycles remarkably uniform. It was a period in which the length of business cycles was controlled substantially by the speed with which cash flowed out of banks in response to business expansion and back into the banks as business contracted.

Developments in Europe and government activity here played a subordinate rôle in business cycles before 1914. Since that date only one cycle, that from 1921 to 1924, has followed the normal pattern (p. 147). Elasticity of credit under the federal reserve system permitted capital issues to expand continuously from 1923 to 1929. Since 1933 the volume of

business has been simply a function of the preceding volume of federal debt creation (p. 150).

The central thesis of this work and its method may both be revealed by one quotation (p. 169). "In the entire long period up to 1933 there is no instance in which the flow of new funds from security issues shows an important decline without that development being followed by a downturn of business activity, nor is there any instance of the issues showing an important advance that was not promptly accompanied and followed by business recovery and prosperity."

DONALD S. TUCKER

Massachusetts Institute of Technology

The Canadian Balance of International Payments: A Study of Methods and Results. (Ottawa: Dominion Bur. of Statistics. 1939. Pp. 251. $1.00.)

This significant publication is a detailed analysis of Canada's balance of payments, and is a welcome companion to the study of the United States balance of payments published annually by the Bureau of Foreign and Domestic Commerce. The volume represents several years' effort, and was prepared by Herbert Marshall, chief of the Internal Trade Branch of the Bureau of Statistics, with the assistance of C. D. Blyth. It covers Canada's foreign transactions for the years 1926 through 1937, and endeavors to build up factual data to replace the estimates on which the earlier statements of Canada's balance of payments were based.

The first 172 pages consist of textual discussion, while pages 173 to 245 contain statistical tables. The study has three main divisions. Chapters 3 to 7 deal with international indebtedness, that is, Canadian investments abroad and foreign investments in Canada. The next seven chapters deal with current accounts, "debits and credits arising through international transactions in goods and services for the calendar year." The following six chapters deal with current capital account, analyzing the year's capital movements inward and outward.

The difficulties of evaluating foreign investments in Canada were settled in favor of utilizing the "capital employed" figures compiled annually by the Census of Industry, which approximate book values. The figures "attempt to show the amount which could be paid to outsiders if all government bonds were paid off at par and if corporations could all be liquidated at the present worth as shown by the Census of Industry's capital employed figures." Since these figures reflect internal economic fluctuations and the plowing back of earnings they "cannot be used as a basis for ascertaining the inflow and outflow each year of investments in Canadian industry by outsiders." For capital inflow and outflow a separate inquiry was made.

The authors argue against market values as being subject to erratic fluctuations. "The problem is to put the most reasonable valuation on the totality of international indebtedness." In discarding market values they attempt to improve upon this type of valuation. Statistical difficulties may militate against compiling figures of market values, but on theoretical grounds the use of any other value is open to challenge. If the capital in question is to be withdrawn, the market value is the significant amount. It is the value which tends to exclude errors of judgment of entrepreneurs and which allows for changes in the rate of capitalization.

The final balance sheets show that Canada regularly has had a net deficit in her goods and services trade with the United States, with the exception of the year 1935 when a slight credit was registered. With the entire world, however, Canada has since 1933 had a net surplus in her goods and services trade. A net inflow of capital from the United States took place from 1927 through 1932; since that year a net outflow to the United States has regularly taken place. Capital movements with the entire world during these years were somewhat similar to those with the United States.

At the end of 1937, out of total foreign investments in Canada of \$6,765,000,000 the United States had \$3,932,000,000 and Great Britain \$2,685,000,000. The largest item in Britain's investments there was railways; the largest item of American investments was government and municipal bonds. Canada's investments abroad totaled \$1,758,000,000, making the country a net debtor.

Canada is to be congratulated upon this careful statistical analysis of the country's balance of international payments. It would be well if other leading countries would follow her excellent example.

JOHN PARKE YOUNG

Occidental College

NEW BOOKS

BAUDIN, L. *Free trade and peace.* (Paris: Internat. Inst. of Intellectual Cöop. New York: Columbia Univ. Press. 1939. Pp. 87. 75c.)

BIDWELL, P. W. *The invisible tariff: a study of the control of imports into the United States.* Prepared under the auspices of the Am. Coörd. Committee for Internat. Stud. (New York: Council on Foreign Relations. 1939. Pp. ix, 286. \$2.50.)

This book presents a painstaking, comprehensive study of the various devices which in addition to the tariff have been used in order to make it difficult and at times impossible for foreign goods to enter this country.

In the first part of the volume Professor Bidwell takes up customs regulations and formalities, measures adopted for the prevention of unfair competition, countervailing and anti-dumping duties, "flexible" provisions of our post-war tariffs, import quotas and our Trade Agreements Program; the second part

of the book deals with measures which have been passed in order to protect public health and morals, to insure public safety and to prevent the importation of diseased plants, animals and animal products. As the author points out, the ever growing extension of the non-tariff control measures over imports has been in many instances a necessary corollary of increasing regulation of domestic trade both by the states and by the federal government. While ostensibly many of these measures are of a police character or invoke sanitary considerations, in reality they have been used as instruments of economic protection, doing it more effectively than it can be accomplished by means of customs duties.

The reviewer appreciates Professor Bidwell's point of view, but he does not share his alarm concerning the growing power of the executive to deal with foreign-trade problems, which, according to the author, is inconsistent with our democratic form of government; he sees the danger in using economic sanctions against "the aggressive and seemingly (?) lawless policies of the so-called (?) dictator states" (p. 19; the question marks are the reviewer's), because their use may lead to war. But according to Mr. Bidwell, to meet the conditions created by totalitarian states "economic sanctions by congressional action would be difficult, probably impossible"; thus he is apparently in favor of doing nothing because the doing may have political implications.

While objections to some of the "invisible" tariff measures so well described by Professor Bidwell may be justified and while it is true that lobbying, log-rolling and other undesirable practices have characterized the enactment of our tariffs, one may question the correctness of the author's opinion that the delegation of the tariff-making authority to the executive in the "flexible" provisions of the acts of 1922 and 1930 and in the Trade Agreements Program inaugurated in 1934 may be regarded as manifestations of the inability and unwillingness of the Congress to deal with tariff problems honestly and effectively (p. 12). Whatever may have been the origin of the piling up of trade barriers by various countries after the World War, these barriers exist and in dealing with them one cannot rely upon the slow and cumbersome process of tariff revisions; it was partly the realization of this fact that led to the giving of greater foreign-trade regulatory power to the administrative branch of our government.

The book is largely expository and its chief value is that for the first time it brings together the impressive array of legislative and administrative non-tariff control measures which have been restricting the import trade of the United States, particularly in recent years.

SIMON LITMAN

BINDER, P. *Die Schalthebel der Konjunktur: Kaufkrafteinsatz und Kaufkraftstillegung als Bestimmungsgründe des Volkseinkommens.* (Munich: Oldenbourg. 1939. Pp. 106. RM. 4.80.)

The present work contains essentially the first part of a shortly appearing volume on the control of the business cycle. It confines itself strictly to the essentials of the mechanism of the economic cycle, leaving untouched the psychological and material forces which set it into and which maintain it in motion. The influence of Keynes's *The General Theory of Unemployment, Interest and Money,* appearing after the first sketch of the main conclusions had been made, compelled the author to give his ideas a theoretically more

pointed, as well as a more practical politico-economic formulation, particularly since from the beginning an accounting point of view is applied in order to bring involved processes to a form of presentation that may be seen at a glance. The author confines himself to the exclusive aim of ascertaining exactly the mechanical relationships between the magnitude of the reservoir of buying power for purposes of investment and consumption and the value magnitude of national income. The real causes and the issue of economic expansion and depression are not dealt with. Main consideration is given to deposits and abatement of buying power as motives of national income.

HERMAN HAUSHEER

DONNELLY, G. R. *World trade in dental and surgical goods.* Trade prom. ser. no. 204. (Washington: Supt. Docs. 1939. Pp. v, 264. 25c.)

GEISER, A. *Die Kompensation als Mittel der Aussenhandelspolitik unter besonderer Berücksichtigung der Schweiz.* (Zürich: Schulthess. 1939. Pp. 109.)

HANTOS, E. *Le régionalisme économique en Europe.* (Paris: Inst. Internat. de Coöp. Intellectuelle. 1939. Pp. 59.)

The central thesis of this study is that international economic agreements on regional bases are tending to replace the short-lived autarchical systems which followed the collapse of free international trade in the post-war era.

Since the policy of free trade, within Europe of the recent past, to say nothing of the present, is virtually unthinkable, Professor Hantos holds that limited international agreements regarding tariff concessions, administrative uniformities, regional preferences, etc., provide at least a modicum of relief to a world restrained by national strait-jackets. Granting that such international agreements are not overwhelmingly important, Professor Hantos sees the coördination and expansion of these agreements as a difficult but altogether worthy task.

The Danubian agreement of 1930, the agreement of the "Little Entente" of 1933, the Balkan agreement of 1933, the Pact of Rome of 1932, the Oslo conventions of 1930 and 1937, and the Baltic Coöperative agreements are briefly discussed.

The most important conclusions drawn by the author from his analysis are (1) that regional agreements, by themselves, are not likely to secure all the benefits of true free trade, (2) that the purpose of regional agreements on an international scale is the protection of the several national economies against decline through mutual preferential treatment, (3) that agreements have been most successful when the signatory countries have harmonious political and economic aims.

SIDNEY C. SUFRIN

HEUSER, H. *Control of international trade.* (Philadelphia: Blakiston's. 1939. Pp. x, 282. $3.50.)

It is the purpose of this book to present a comprehensive analysis of import quotas and foreign-exchange control which are much-needed subjects of economic inquiry. In compliance with the terms of the Acland Scholarship the field of research has been restricted to Europe—an unfortunate limitation in view of the wide use of these devices elsewhere. The writer has undertaken to analyze the causes of regulation of foreign trade; the methods of foreign trade control; and the results of the regulation of foreign trade. In parts 1 and 2, there is a detailed consideration of the technical aspects and administrative

problems. A particularly interesting section deals with the development of the use of import quotas as bargaining instruments of commercial policy. Part 3 consists of a theoretical analysis of the effects on trade, prices and production, illustrated with diagrams and tables. Throughout these later chapters there is a comparison with the use of tariffs for similar purposes. The application is limited to a "democratic country in which private enterprise is the predominating form of economic activity." In his conclusions Dr. Heuser builds up a strong theoretical case against import quotas and foreign exchange control in such an economy. Whereas, under certain conditions, these two trade controls are admittedly more effective, tariffs he considers preferable from the point of view of social justice.

No fault can be found with the author's theoretical deductions which are similar to the earlier analyses of the tariff by the neo-classicists. They will not, however, discourage governments concerned with economic planning or increased control over economic activities. For countries striving to preserve the competitive system the question remains unanswered—namely, will these new techniques used by other nations require radical changes in customary instruments of commercial policy?

ETHEL B. DIETRICH

MELDER, F. E. *State trade walls.* Public affairs pamph. no. 37. (New York: Public Affairs Committee. 1939. Pp. 31. 10c.)

PIETZSCH, A. *Zur Frage der Ordnung der weltwirtschaftlichen Beziehungen.* Kieler Vorträge 61. (Jena: Fischer. 1939. Pp. 19.)

This reprinted lecture is a survey of international trade relations from an authoritarian, anti-liberalistic point of view. It consists chiefly in an analysis of two comprehensive tables of figures concerning the trade balances of 11 countries and groups of countries, the figures being the results of studies made in a department of the Reichswirtschaftskammer specially organized for this purpose by the author. The first table shows the trade balances itemized as Goods, Interest, and Services for the years 1929, 1933, 1935, and 1937. One of the main conclusions derived from these figures is that the economy of the United States is a disturbing factor in the world because of the high positive trade balance in goods which it maintains notwithstanding its rôle as a principal creditor country. The second table shows the trade balances between any two of the 11 countries for 1937. It gives a vivid picture of the many-cornered character of international trade, and of the necessity for certain trade partners to maintain permanently non-balancing, that is only indirectly balancing, trade relations. As regards barter agreements, this situation is interpreted as pointing to the need for multilateral rather than mere bilateral agreements of this kind.

Although convinced that world economy, like national economy, needs centralized planning, the author is not optimistic as to the likelihood of international coöperation in the interest of a more rational and equitable order in the near future. (The lecture was delivered on July 12, 1939!) He hints that in the meantime certain countries may find it necessary to solve their trade problems independently by expansion of the economic units under their control.

JOHN V. SPIELMANS

SMITH, E. L. *Tides in the affairs of men: an approach to the appraisal of economic change.* (New York: Macmillan. 1939. Pp. x, 178. $2.)

TASCA, H. J. *World trading systems: a study of American and British commercial policies.* (Paris: Internat. Inst. of Intellectual Coöp. New York: Columbia Univ. Press. 1939. Pp. 172. $1.50.)

TINBERGEN, J. *Business cycles in the United States of America, 1919-1932.* II. (Geneva: League of Nations. New York: Columbia Univ. Press. 1939. Pp. 244. $1.25.)

Commerce and economic resources of our outlying territories and possessions: Territory of Alaska; Territory of Hawaii; The Philippines; Puerto Rico; Virgin Islands; Panama Canal Zone; other possessions. Rev. ed. (Washington: Chamber of Commerce of U. S. 1939. Pp. 50.)

International trade in certain raw materials and foodstuffs by countries of origin and consumption, 1938. (Geneva: League of Nations. New York: Columbia Univ. Press. 1939. Pp. 178. $1.50.)

Reciprocal trade, agreement, protocol, notes, and protocol of amendment, between the United States of America and Czechoslovakia: and proclamation of Mar. 23, 1939, by the President of the United States terminating on April 22, 1939, his proclamations of Mar. 15, 1938, and Apr. 15, 1938. Exec. agreement ser. 147. (Washington: State Dept. 1939. Pp. 62. 10c.)

Reciprocal trade, agreement and protocol of signature between the United States of America and France; and related notes. Exec. agreement ser. 146. (Washington: State Dept. 1939. Pp. 68. 10c.)

Review of world trade, 1938. (Geneva: League of Nations. New York: Columbia Univ. Press. 1939. Pp 85. 60c.)

In the present issue has been added a section dealing with the relationship between the prices and the quantities of goods entering into trade.

J. C. ROCCA

Accounting, Business Methods, Investments and the Exchanges

Does Distribution Cost Too Much? A Review of the Costs Involved in Current Marketing Methods and a Program for Improvement. By PAUL W. STEWART and J. FREDERICK DEWHURST, with the assistance of LOUISE FIELD. (New York: Twentieth Century Fund. 1939. Pp. xvii, 403. $3.50.)

Objectives of this study are to present "an accurate over-all picture and appraisal of the distribution system as a whole and a program for making it more efficient." The report covers only distribution of movable, tangible commodities, and omits transactions in real estate, insurance, amusement businesses and the like. The research study is presented in ten chapters; the conclusions and program, in a final chapter.

In 1929, distribution costs are estimated to have accounted for 59 cents of the consumer's dollar spent for commodities as contrasted with 41 cents for production costs. Of this distribution cost, retailing represents about one-third, manufacturers' distribution about a fourth, transportation about a fourth, and intermediary trade approximately a fifth. The small remainder consists of national advertising, costs of natural gas distribution and interest costs on installment loans.

The weakest point in this estimate, as is freely admitted by the authors, is manufacturers' distribution costs. Lack of data forced major reliance upon a study of a limited number of manufacturers whose average costs were projected to census data. There are questions not only as to the reliability of the small samples but also as to the meaningfulness of average figures for manufacturers who often vary widely in their distribution policies. Also, inasmuch as census data are used heavily in measuring and comparing retailing and wholesaling costs, somewhat more detailed consideration of their uses and limitations would have been helpful. The level of census costs at times tends to be lower than that shown by carefully conducted sample studies.

Generally speaking, however, the research studies in costs were competently and conscientiously handled and represent a real contribution. The blame for gaps in data rests upon the marketing profession for not producing more monographs upon which the authors could have drawn. The text is clear and visual presentations aid the reader. The flow chart developed in conjunction with chapter 3 is helpful, especially in illustrating the recirculation present in commodity movements, while the chapter on government regulation of distribution is an excellent summary.

The Committee concludes rather cautiously that distribution does cost too much, but points out that there is no way of measuring how much too costly it is or even of saying that it is more costly than production. The factors causing high distribution costs are enumerated as costs of competition, consumer demands for service and consumer ignorance in buying, and inefficiency in operation.

The program for reducing costs of distribution has and will continue to provoke lively discussion. Although space forbids consideration of the 19 recommendations, it may be said that those related to better marketing information and more efficient operation are least controversial. Those dealing with competitive restrictions and regulations will have a mixed reception and probably will be bitterly opposed by various groups seeking to perpetuate their economic existence through favoring legislation. Also controversial are the recommendations having to do with consumer knowledge, although the arguments here are more likely to be concerned with the practicability of certain items. For example, it seems questionable in the light of past experience whether an increase in government pamphlets will materially improve consumer buying. Neither does it seem that more merchandise testing is the answer. This field is full of thorny problems not the least of which is the many uses to which the same product may be put by different consumers. Differentiated retail pricing is likely to draw fire from retailers who have tried it; but it should be borne in mind that this particular recommendation urges careful study rather than widespread adop-

tion. The possible savings through further organization of consumer coöperatives may be questioned although no one will doubt their educational value to members and their occasional utility as a competitive force. Even with active sponsorship by government and other organizations, consumers coöperatives account for less than one per cent of retail sales.

It is perhaps well that the program is of controversial nature. Were it such as to be readily accepted, interest would quickly die. In this way there is much more hope of constructive action.

ROSS M. CUNNINGHAM

Massachusetts Institute of Technology

NEW BOOKS

ALFORD, L. P. *Principles of industrial management for engineers.* (New York: Ronald. 1940. Pp. xxii, 531. $4.50.)

BACKMAN, J., editor. *Investment dynamics: a symposium.* (New York: Fiduciary Pubs. 1939. Pp. 26.)

Prepared for *Trusts and Estates* magazine and based on articles published in issues of December, 1938, through August, 1939.

BAKER, H. A. *Principles of retail merchandising.* (New York: McGraw-Hill. 1939. Pp. xiv, 462. $4.)

A textbook, with chapter questions and selected references.

BROOKS, W. C. *Company finance.* (London: P. S. King. 1939. Pp. 100. 6s.)

CARPENTER, H. G. *The letters of an investment counsel to Mr. and Mrs. John Smith.* (New York: Harper. 1940. Pp. xi, 197. $2.50.)

CRUMBAKER, C. *Organizing and financing modern business.* (New York: Wiley. 1939. Pp. x, 644. $3.75.)

This volume deals with the problems of organizing and promoting new business concerns and combinations of old ones. The important problems treated include: the traditional types of business organization to which is added the business syndicate; the legal rights and duties and economic functions of stockholders, directors, and management under corporate laws and charters; capitalization, instruments of long-time finance, and provisions for working capital; budgeting; and finally failure and reorganization.

The distinctive feature of the work is the point of view assumed. The problems of organization and finance are treated from the standpoint of "institution" or "going concern." Thus they become not the traditional problems of and for management but general economic and social problems which are of concern to the average citizen for whom indeed the book was largely written. In keeping with this there are chapters on blue-sky laws and public regulation of the security markets.

The treatment of the subject matter is mostly analytical and descriptive, only a limited amount of statistical data being utilized. The work is more fully documented than usual. In addition valuable bibliographical references are found at the end of each chapter.

For the general reader, as well as for the student of business organization and

finance approaching the subject from the general economic point of view, this volume fills a gap long open in the literature of the subject.

JOHN E. KIRSHMAN

DAVIS, R. C. *Industrial organization and management.* (New York: Harper. 1939. Pp. xxii, 636. $4.)

A textbook with problems covering business, production, and quality control; plant location; handling of materials; purchasing; salvage; personnel; industrial health; labor relations; employee training, and budgetary control. "Virtually a new text rather than a revision of *The Principles of Factory Organization and Management.*"

GILBERT, J. C. *A history of investment trusts in Dundee, 1873-1938.* (London: P. S. King. 1939. Pp. 144. 6s.)

GREIDINGER, B. B. *Accounting requirements of the Securities and Exchange Commission for the preparation of financial statements.* (New York: Ronald. 1939. Pp. xviii, 517. $5.)

GRETHER, E. T. *Price control under fair trade legislation.* (New York: Oxford Univ. Press. 1939. Pp. x, 517. $5.)

Mr. Grether is qualified to speak on the increasingly important topic of resale price maintenance under state "fair trade" laws by his earlier British study, his work for the NRA, and his exhaustive researches into retail competition and price maintenance in his own state, California. This state is especially important, since it has pioneered in the present era of fair-trade laws. It is astonishing to find that between 1931 and 1938 all but five states adopted such laws, just as it is disquieting to observe so much legislative disregard of both theory and experience and so much careless haste—amusingly illustrated by the repeated copying of the same acts, even to the same serious misprints.

The first half of the book outlines the legislative and judicial history of recent years, especially in California, and describes in some detail the price cutting and price maintenance problems of the main branches of retailing in that state. While the factual study hardly extends to other states, there is little doubt that the same general conditions would be found elsewhere. The second half comprises a closely reasoned analysis—perhaps too difficult as an introduction to this field, but essential to all workers in it—of the use of loss leaders, the interests of manufacturers, distributors, and consumers, and the general problems of enforcement and control of resale prices. The appendices summarize the fair-trade laws and tabulate the surveys on prices before and after price control, on trade opinions, and on profits.

The author's position is perhaps closer to that of most economists who have opposed resale price maintenance as unfair to the consumer than to that of the small minority who have ardently favored it; but, influenced as he is by the monopolistic competition analysis, which he applies to retailing, he lacks faith in free competition. As for the experience with the state laws, he believes serious evil has been avoided only by trade resistance to their application or enforcement in many commodities. Among his constructive suggestions, there may be singled out the limited one to ban such dishonest uses of loss leaders as deliberately failing to keep stocks, without touching their healthy use in drawing customers into low-price stores, and the much

broader suggestion that the states explore the possibilities of government licensing and price-fixing in the retail field.

SIMON N. WHITNEY

GROSSMAN, L. W. *Investment principles and practice.* (New York: Longmans Green. 1939. Pp. x, 266. $1.)

A cursory treatment of the subject in a form designed only for elementary students.

HALL, F. P. *Government and business.* 2nd ed. (New York: McGraw-Hill. 1939. Pp. xii, 455. $4.)

HAROLD, G. *An outline of corporation finance.* (New York: Barnes and Noble. 1939. Pp. 276. $2.

VON HAYEK, F. A. *Profits, interest and investment.* (London: Routledge. 1939. Pp. viii, 266. 6s.)

KIMBALL, D. S. and KIMBALL, D. S., JR. *Principles of industrial organization.* 5th ed. (New York: McGraw-Hill. 1939. Pp. xix, 478. $4.)

KIMBALL, M. *Principles of corporate finance.* (New York: Longmans Green. 1939. Pp. ix, 306. $1.)

As an educational tool, this book, an addition to the paper bound American Business Fundamentals series, is a definite contribution. The author has avoided pet hobbies, individualistic terminology, and last words on controversial subjects. Instead, he presents a straightforward, up-to-date, well balanced, step-by-step exposition of the fundamentals of corporation finance, including procedures generally followed.

The usefulness of this volume is augmented by a chart giving cross-references of supplementary readings (p. vi) ; selected references (pp. vii-viii) ; questions based on each chapter (pp. 277-290) ; selected readings on each chapter (pp. 291-297) ; and a well organized index. Footnotes are fairly generously used for references, sources and clarifying examples.

Whether or not this text is regarded as too elementary to meet the requirements of individual courses, it will be a welcome reference book for instructors and students.

DONALD M. HALLEY

KNAPPEN, L. S. *Revenue bonds and the investor.* (New York: Prentice-Hall. 1939. Pp. xiii, 329. $3.50.)

Prior to the creation of the Port of New York Authority in 1921, revenue bonds were relatively unimportant in this country. Today, the par amount of revenue bonds outstanding exceeds $1,000,000,000. In fact, this vehicle of finance has recently been used on an increasing scale not only by states through specially created agencies and municipalities, but even by our federal government.

Both the statutory and common law in respect to full faith and credit obligations of states and municipalities has been fairly well standardized. This does not apply, however, to revenue bonds. The statutory authority under which such bonds may be issued varies widely from state to state, which means, of course, a variation not only in the protective rights given the investor as between states, but also in the legal remedies that may be applied in case of default.

The author has covered his field exceptionally well in this volume. Particular attention is given to an analysis of the statutory provisions under which such bonds are issued and to the more important protective provisions which are substituted for the full faith and credit pledge found in direct obligations of political units. The legal remedies which may be sought through court action in cases of default are likewise well treated. An interesting chapter on the history of defaults is given.

Other chapters deal with methods of marketing revenue bonds, the relative performance of such bonds as compared with full faith and credit obligations, and leading types and users of revenue bonds. The use of revenue bonds as a vehicle for obtaining grants and loans from the federal government in connection both with the Reconstruction Finance Corporation and the Public Works Administration is discussed. A full analysis is also undertaken of different types of statutory authorities.

The author not only has supplied copious references throughout the book, but has also prepared appendices containing complete citations by states of revenue bond statutes (Appendix A), citations by states of important revenue bond cases (Appendix B), a bibliography, and a listing of all cases cited.

The book should prove exceptionally valuable to institutional investors, to advanced students of investment, and to lawyers who wish a convenient summary treatment of the subject.

R. E. BADGER

LEWIS, C. W. *Price maintenance in Knoxville, Tennessee, under the Tennessee Fair Trade act of 1937.* Univ. of Tennessee Record, vol. 42, no. 6. (Knoxville: Univ. of Tennessee. 1939. Pp. 64.)

LYONS, G. J. and MARTIN, H. C. *The strategy of job-finding.* (New York: Prentice-Hall. 1939. Pp. 391. $4.)

MCKINSEY, J. O. *Bookkeeping and accounting.* 4th ed., rev. by EDWIN B. PIPER. Vol. I. (Cincinnati: South-Western Pub. Co. 1939. Pp. 542. $1.64.)

MCKINSEY, J. O. and NOBLE, H. S. *Accounting principles.* (Cincinnati: South-Western Pub. Co. 1939. Pp. x, 885. $3.75.)

MCMULLEN, S. Y. *Federal income tax accounting: a practical course for basic instruction.* (New York: Ronald. 1939. Pp. xvii, 315. $5.)

It is encouraging to find a writer who is under no illusions about reconciling income-tax procedure with that will-o-the-wisp "good accounting practice." There are frequent declarations to establish the proposition that " 'taxable net income' is a statutory concept and no conclusions drawn on the basis of logic or accounting will necessarily apply. The sole test is the intent of Congress as set forth in the Act and interpreted by the Treasury Department, by the Board of Tax Appeals, and by the courts" (p. 33). It is no accident that this book contains much law.

The reader should not conclude that the author has merely restated the Act and the Treasury Regulations. The book is designed to prepare students for the business of filing returns and to emphasize business policy. Well selected cases are used to illustrate many points. The book is elementary and no attempt is made to include unusual situations. The chapter on losses and bad debts (9) is very good and the section on depreciation (chapter 10, part 1) would do credit to a text on accounting theory. Some may be concerned with the author's definition of a tax—"A tax is an exaction (of money or other valuable property) to defray the cost of the activities of government" (p. 1).

For there is no attempt to show why a fee and a special assessment do not fall within these boundaries. However such matters are negligible. After all, "whether an item is included for tax purposes, or whether an item is an allowable deduction, is statutory, that is, *it is a matter of law*" (p. 8).

The changes made in the 1938 Act are summarized at the close of each chapter. The book is in loose-leaf form so that additions may be included from time to time.

EDWARD G. NELSON

MANDEL, H. R. *Real estate management: a manual for profitable property operation.* (New York: Ronald. 1939. Pp. xiv, 218. $4.)

MAYHEW, C. P. *Planned investment.* (London: Fabian Soc. 1939. Pp. 48. 1s.)

MEAD, E. S. and GRODINSKY, J. *The ebb and flow of investment values.* (New York: Appleton-Century. 1939. Pp. 467. $5.)

MITCHELL, W. N. *Organization and management of production.* (New York: McGraw-Hill. 1939. Pp. xii, 417. $4.)

This book, written for use in collegiate schools of commerce, differs from most texts on industrial management in both scope and treatment. The usual subject matter is here: organization, product design, plant design and layout, maintenance and depreciation, purchasing, inventory control, time study, wage payment, production control, etc. These topics are presented in 7 chapters which total 245 pages. In this space complete coverage has been attained by streamlining the exposition. In addition, four general extensive chapters appear at the outset. These deal with production economics in the sense in which the term is employed in courses in economics. Here are found such topics as the time factor in production, cyclical changes, non-rhythmical fluctuations, conservation of natural resources, industrial research, specialization, the machine, transfer of skill, and regional differentiation of industry.

One-fourth of the book is a working appendix which gives for each chapter an extended bibliography, questions for class discussion, and several problems. The author expects teachers to devote the classroom discussions to practical problems and concrete cases with the students preparing for these by reading widely among the suggested references. If this expectation is realized it will make for a much more intensive first course than is usually found in this field. As to specific points, there is little to criticize and much to commend. Especially noteworthy are the graphic portrayals of managerial concepts and equations.

ALFRED H. WILLIAMS

MONCHOW, H. C. *Seventy years of real estate subdividing in the region of Chicago.* Stud. in the soc. sci. no. 3. (Evanston: Northwestern Univ. Grad. School. 1939. Pp. viii, 200. $2.25.)

MOONEY, J. D. and REILEY, A. C. *The principles of organization.* (New York: Harper. 1939. Pp. x, 223. $3.)

MYER, J. N. *Financial statement analysis: principles and technique.* (New York: Author. 1939. Pp. xvii, 270. $3.25.)

This treatise has been prepared as a provisional text and is a preliminary edition of a larger work now in preparation. The discussion of techniques is elementary but straightforward. There are 60 pages of problem material. It is to be hoped that in the completed form, the discussion of interpretation of results will acquire greater depth. This reviewer regrets that the typical dis-

cussion of the important problem, financial statement analysis, reflects so little the essential backgrounds in economics, finance and operations. There is no technical substitute for such background.

W. P. Fiske

Pomeroy, D. A. *Business law.* 2nd ed. (Cincinnati: South-Western Pub. Co. 1939. Pp. xiv, 906.)

Putney, W. B., 3rd. *Stabilization of securities by an underwriter.* (New York: Author. 1939. Pp. 57. 75c.)

Radin, M. *Manners and morals of business.* (Indianapolis: Bobbs-Merrill. 1939. Pp. 270. $2.50.)

Reynolds, L. G. *The control of competition in Canada.* Harvard stud. in monopoly and competition, 2. (Cambridge: Harvard Univ. Press. 1940. Pp. xiv, 324. $3.50.)

Rose, D. C. *The policyholders' interest in equity investments.* Address at the 34th annual meeting, American Life Convention, Chicago, Ill., Oct. 3, 1939. (New York: Investment Counsel Assoc. of America. 1939. Pp. 28.)

Scudder, L. W. *Accountancy as a career.* (New York: Funk and Wagnalls. 1939. Pp. 169. $1.50.)

Sherwood, J. F. and Pendery, J. A. *Social security and pay-roll accounting.* 2nd ed. (Cincinnati: South-Western Pub. Co. 1939. Pp. 256. $2.60.)

Covers federal and state social security laws; non-technical.

Shirk, A. U. *Marketing through food brokers.* (New York: McGraw-Hill. 1939. Pp. 329. $3.50.)

Spengler, E. H. and Klein, J. *Introduction to business.* 2nd ed. (New York: McGraw-Hill. 1939. Pp. xvi, 786. $4.)

The effort to make business courses "practical" generally proceeds on the ill-founded hypothesis that theory must be avoided as incompatible with the treatment required. Business training has suffered now for over two decades from the result, which is the elimination of all but the most superficial sort of analysis. There is left for instructional purposes factual reviews, the description of business activities and practices, and the formulation of business problems which can rarely be analyzed with the limited intellectual equipment offered.

The economics student who wants to understand how the economic system operates, and the business student who wants to understand how to operate parts of the system are fundamentally not so far apart in their training requirements as is sometimes supposed. They both need training in the intellectual tools and methods of analysis. Recent developments in the field of theory, particularly with reference to production, costs, prices, and the firm, offer some possibility of injecting more analysis into business courses. The possibility has not yet been seen by authors of business textbooks, however.

This book is intended for an introductory course in business. The revision has been wisely directed to alter the organization, to cut and expand sections, and to include a discussion of recent developments. The result is a distinct improvement on the earlier edition. Judged in terms of the traditional standards, which this book follows, it is one of the best of its kind. Fifteen or twenty years ago this sort of treatment would have been a notable achievement. Today one is justified in doubting the wisdom of offering students an introduction to business which formulates few of the typical firm problems, scarcely mentions the intellectual tools and methods necessary for the analysis of such

problems, and fails to awaken interest in the search for additional specialized knowledge with which the student might in time formulate reasoned opinions. Business education could well afford to undertake in earnest this proper and more fundamental task. The place to begin is in the introductory course and the introductory textbook. With properly organized lectures or discussions even this textbook could provide a beginning.

ROBERT D. CALKINS

TOSDAL, H. R. *Problems in sales management.* 4th ed. (New York: McGraw-Hill. 1939. Pp. xx, 894. $6.)

This publication is one of the Harvard problem books. It retains the organization and the introductory statements to the 11 major sections of the third edition. The revision appears in the changes that have been made in the number, the selection, and the arrangement of the problems. This edition has approximately 35 fewer problems and about 75 fewer pages than the preceding volume. It is one among the very few revisions in which one finds an author reducing the size of his book! He has increased the amount of space devoted to sales programs, sales promotion, and sales organization, and has reduced the amount given to merchandising, prices and terms of sale, sales planning, and management and control of sales operations. The amount of space given to research and to distribution policies remains about the same.

There are approximately 90 new problems which present recent material. About 45 problems carry the old titles; some of these "cases," however, have been revised and modernized.

The major purpose of the book is to furnish adequate, or at least fairly satisfactory material that may be used to aid students in developing "the habit of making decisions upon fact and evidence rather than upon guesswork." Whether this purpose will be attained depends upon two important factors in addition to the well selected materials, *viz.,* a well-informed and skillful teacher, and students with sufficient business background and mental maturity to be able to understand the terminology of the problems and to visualize the administrative implications presented and suggested. The third edition was a distinct improvement over the earlier editions of the book. This fourth edition introduces minor refinements, improves the arrangement of problems, eliminates the less desirable ones and adds enough new ones to bring the book up to date.

J. FREEMAN PYLE

WEISSMAN, R. L. *The new Wall Street.* (New York: Harper. 1939. Pp. x, 308. $3.)

The author has written an intelligent and interesting semi-popular description of the major changes that have taken place in the investment banking machinery of the United States during the past six years. He discusses briefly some of the problems to which the reform legislation has given rise.

Mr. Weissman has sought to maintain a balanced viewpoint in his discussion of such controversial problems as the thin markets resulting from federal regulation of the stock exchanges, administration of the Public Utility Holding Company act of 1935, and restrictions upon short selling. He does reach the conclusion that "new regulations have resulted in less activity; lessened activity, in turn, has created a more discontinuous market. There is no way

of establishing that any one of the regulations . . . has been more responsible than any other."

Initial chapters on "People of the Street" and "The Wall Street mind" are in the popular vein. Those that follow on "The Securities and Exchange Commission," "Stock Exchange reforms" and "The Commission and speculation" contain considerable descriptive material. Separate chapters are devoted to recent changes and new regulations affecting the over-the-counter market and new financing. A valuable feature of the book is the references to the effects of new conditions in the security markets and the security legislation upon corporate financial policies.

In a concluding chapter on "The future of Wall Street" the author urges the financial district to "remove the association of the financial world with opposition to all measures of reform." He regards the failure to develop a technique which would make it profitable for dealers to merchandise aggressively to small investors bonds and stocks of the highest grade as the "organic defect of the financial world."

JULES I. BOGEN

Bond portfolios for banks. Proc. of conference on bond portfolios. (New York: N. Y. State Bankers Assoc. 1939. Pp. 260. $2.)

Economic power: hearings, 76th Cong., 1st sess., pursuant to Public Resolution 113 (75th Cong.). Parts 5, 5-A. (Washington: Temporary Nat. Econ. Committee. 1939. Pp. 1647-2304; 2305-2417.)

Eleventh Boston Conference on Distribution, 1939: a national forum for problems of distribution. (Boston: Boston Chamber of Commerce. 1939. Pp. 114. $3.75.)

Investment trusts and investment companies: report of the Securities and Exchange Commission. Part. 3. *Abuses and deficiencies in the organization and operation of investment trusts and investment companies.* Chapter iv. *Problems in connection with shifts in control, mergers and consolidations of management investment companies.* (Washington: Securities and Exchange Commission. 1939. Pp. 631.)

Trading for others in commodity futures. U. S. Dept, of Agric. circ. no. 539. (Washington: Supt. Docs. 1939. Pp. 28. 5c.)

Capital and Capitalistic Organization

Seeds of Destruction: A Study in the Functional Weaknesses of Capitalism. By JOHN M. BLAIR. (New York: Covici-Friede. 1938. Pp. xix, 418. $4.00.)

The persuasive arguments of this book are addressed to the capitalists and wage-earners of the United States. The arguments are put in the form of "axioms," "aggravating trends," and "corrective techniques," either automatic or artificial. But these forms of statement are resolved into two lines of argument, the one addressed to capitalists and investors, the other to wage and salary earners, leading to the central conclusion of the disappearance of the capitalist system in the United States.

The arguments addressed to wage-earners are based mainly on the com-

bined arguments of Marx and Rodbertus nearly a century ago. They turn on a progressive increase of unemployment and a relative decrease of wage-rates and wage-incomes, compared with prices and upper-class incomes derived from profit, rent and interest. The arguments addressed to capitalists and investors are the increasing taxes, debts and lack of confidence. The two lines of argument come together on the proposition of Rodbertus that the system does not of itself provide enough purchasing power on the part of consumers to take off the markets most of the products created by producers.

While the author does not commit himself to any system that might take the place of capitalism, he leads the way to either the Rodbertus or the Marxian dictatorship, the former in the interest of owners, the latter in the interest of wage-earners. Each of these alternatives or the two in coöperation as nazism and communism, would apparently eliminate the four "axioms," the eight "aggravating trends," and the need of the four "corrective techniques."

For the capitalist system, or capitalism, is defined dynamically, that is, as a set of miscellaneous trends, which when coördinated become a general trend from a mainly *laissez-faire* system of private ownership and profit to a mainly governmental system of regulated production and distribution. "Capitalism" is not "fixed" at any point, but is to be found almost anywhere, differing in "degree," between the two extremes. Wherever private ownership and profit survive there is a degree of capitalism, and the axioms, insofar, are violated, the destructive trends are aggravated, the corrective techniques are futile.

The foundation of his argument is technological—the increasing man-hour efficiency of capitalism. On this foundation is built the increasing inflexibility of prices on account of the increasing part played by capital goods supplemented by corporations and labor unions; the ineffectiveness of high incomes in creating markets for these goods; and the increasing pressure on participants occasioned by disappearing frontiers. On these several accounts there are the increasing costs of distribution and advertising, the increasing subordination of both laborers and investors to centralized banking control. The corrective techniques come against the increasing impracticability of maintaining both high profits and high wages in the face of these trends.

While these arguments are mostly of long standing, pro and con, in economic theorizing, the great gain accomplished in this book is the picture of their interaction tested by Blair's use of the recent abundance of statistical investigations in the United States.

He limits himself to the period of the 1920's and 1930's, because during the first decade of that period the administration at Washington was more *laissez-faire* than ever before, the collapse was more destructive dur-

ing the second decade, the corrective techniques more futile, the official statistics more complete.

There is, however, as suggested by these decades, a "cycle" distinguished from his "trends"—the credit cycles which began a hundred years ago in America with the incoming of commercial banks and now culminating in the federal reserve system—a cycle not contemplated by Blair in his catalogue of axioms, trends and techniques. Yet this credit cycle might, with justification, be cited as more characteristic of "capitalism," more aggravating, and its proper control as more hopefully corrective than many or most of the techniques which he elaborates. With this as perhaps a seventeenth item in his list, tracing its effect on the other sixteen, as he does among the sixteen themselves, the book might well be designated a promising pioneer in the twentieth century reconstruction of economic science on the principles of "relativity."

JOHN R. COMMONS

University of Wisconsin

The Evolution of Finance Capitalism. By GEORGE W. EDWARDS. (New York: Longmans Green. 1938. Pp. xvi, 429. $4.00.)

The phrase "finance capitalism" (of foreign origin) in the title to this work sounds strange (and awkward) to American ears. However, it is no sooner adopted than discarded in the text in favor of "security capitalism" which appears on every page of the work thus becoming somewhat irksome. "Security capitalism" is defined as "the economic system which is financed through the conversion of the *saving* (italics supplied) of investors into security investment." Saving originates with "consumers, whether individuals or corporations, while investment denotes the forms of evidencing the transfer of the saving to entrepreneurs or governments." Saving results from "collective choice" while investment arises from "collective action." These definitions are somewhat confusing and may mislead the reader.

In reality this volume (modest in size) attempts a history of capitalism in the leading nations of the world, east and west, with special emphasis on the United States. Security capitalism in all nations treated is summarily forced into the identical pattern of rise, development, and crisis, the latter being evidenced by the financial crash of 1929. It matters nothing that recovery has since taken place in some of the leading nations concerned while in others it has been retarded by forces unfavorable or hostile to private enterprise, or that overstressed nationalism has seriously interrupted normal development.

The underlying theme of the volume is that intangible wealth has created the characteristic problems of irresponsible management of industry and

government, over-capitalization, financial instability, and disequilibrium of savings and investment. Somehow these features of capitalism led to the world economic crisis of 1929 and after. The more fundamental matters of division of labor, exchange, the use of money, markets for goods, and technical progress seem to have no bearing on the economic difficulties of the world today. Nor does it matter that severe crises have occurred in the past prior to the development of the era of security capitalism. It is enough that intangible property, representing underlying wealth and evidencing separation of ownership and management, prevails to a considerable extent today.

In the end the historian turns doctor and prescribes a Federal Finance Board for the coördination of all governmental and private financial agencies. Under the aegis of its wisdom savings are to be doled out here and there for prescribed use as needed in the judgment of the Board, standards are to be imposed upon the erring financiers, and all is to be sanctified by governmental unction. In view of the financial impasses to which government has now and in times past brought us, only the uncritically minded can be expected to respond to such a program.

Although there are shortcomings in this volume, yet of especial value are many citations, quotations from contemporaneous literature, and the collection of statistical material unavailable elsewhere.

JOHN E. KIRSHMAN

University of Nebraska

NEW BOOKS

BOGERT, G. G. *Cases on trusts.* (Chicago: Foundation Press. 1939. Pp. 928. $6.)

COON, H. *Amer. Tel & Tel: the story of a great monopoly.* (New York: Longmans Green. 1939. Pp. vii, 276. $3.)

The title is a well chosen description for this book. Three chapters are devoted to the early struggles of the promoters. The next fourteen chapters relate to the development of the Bell System between the time that Theodore N. Vail went with the National Bell Telephone (1878) and the present. The final two chapters revert to the economic aspects of the telephone system.

Although the reports on the recent investigation of the telephone industry by the Federal Communications Commission were the main source of information, Mr. Coon has drawn upon many other sources. In the chapters covering the development of the Bell System, emphasis is placed on the influence of personalities. This is especially true in the case of Mr. Vail. In fact, the reader is likely to set aside the book with the impression that the Bell System is the result of Mr. Vail's wisdom and foresight. Patents, corporate inter-relationships, financial growth and business policies of major importance, are some of the other aspects of the period of development which are stressed. The author's style is easy and direct and his choice of material such as to make the book very readable.

The author takes the position that federal regulation is necessary. State regulation is deemed inadequate because of the control over the associated

company costs which is exercised by the American Telephone and Telegraph Company through its license service contract and through the use of the Western Electric Company as a manufacturing and purchasing agency. In these matters Mr. Coon's views are in agreement with those set forth in a "Proposed Report" written by Paul A. Walker, the commissioner in charge of the recent investigation of the telephone industry by the Federal Communications Commission. In fact, numerous references to and quotations from this report are included.

The practice of the Bell System in the matter of depreciation charges and the relation thereof to rate regulation is commented upon in a number of instances. It must be said that the author does little to clear up this question. Instead, he adopts the erroneous view that is so common in connection with depreciation reserves and talks of these reserves as though they were funds. This misunderstanding is evidenced on several occasions. It seems that Mr. Walker's "Proposed Report" is also guilty of this same error. At one point the report is quoted as follows: "5. The accumulated depreciation reserves, as well as future additions thereto, should be held as trust funds to be administered by the company for the benefit of subscribers present and future. 6. The earnings on the reserves should accrue to the benefit of subscribers."

W. E. DICKERSON

CRUM, W. L. *Corporate size and earning power.* (Cambridge: Harvard Univ. Press. 1939. Pp. xi, 418. $4.)

GRAZIADEI, A. *Le crisi del capitalismo e le variazioni del profitto.* (Milan: Bocca. 1940. Pp. xi, 225. L. 25.)

MAESTRI, R. *Capitalismo y anticapitalismo (una exploración metodológica).* (Havana: Inst. Nac. de Previsión y Reformas Sociales. 1939. Pp. 36.)

ROSE, J. R. *Public utility regulation in Pennsylvania.* A dissertation. (Philadelphia: Univ. of Pennsylvania. 1939. Pp. viii, 172.)

SCHMIDT, E. P. *The economics of public utilities.* Vol. II. (Ann Arbor: Edwards Bros. 1939. Pp. 201. $1.)

Labor and Labor Organizations

NEW BOOKS

AIKIN, C., editor. *National Labor Relations Board cases.* (New York: Wiley. 1939. Pp. 120. $1.)

CARROLL, M. R. *What is collective bargaining?* (New York: Longmans Green. 1939. Pp. 117. $1.75.)

CHEEK, J. B. *The National Labor Relations act: a guarantee to collective bargaining.* (Washington: Nat. League of Women Voters. 1939. Pp. 15. 10c.)

FINE, R., compiler. *Profit-sharing: selected references, 1923-1939.* (Washington: U. S. Dept. of Labor Library. 1939. Pp. 18.)

Supplement to "Profit-Sharing and Labor Copartnership: A List of Recent References," in *Monthly Labor Review* for April, 1923.

FISHER, W. E. *Economic consequences of the seven-hour day and wage changes in the bituminous coal industry.* (Philadelphia: Univ. of Pennsylvania Press. 1939. Pp. xv, 130. $2.)

The curve of regulation of wages and hours by the state is still rising.

It is followed after a considerable lag by development of criteria for judging such controls. Mr. Fisher's study of the bituminous coal industry is valuable as a concrete example, and as a study in method.

The seven-hour day was applied to bituminous coal in April, 1934, by agreement between unions and operators. At the same time wage rates were increased enough to provide the same or higher weekly earnings. This agreement was promptly approved by NRA and applied to all outlying fields. Because regulation was continued after NRA, Mr. Fisher was able to study its effect over four years.

The first requirement for getting the right answers is asking the right questions. The author traced the effect of control upon labor costs, non-labor costs, upon output per man and the rate of mechanization, upon changes in the total labor force, and total working time, upon annual earnings, and upon the accident rate.

The important conclusion is that the four-year period was divided sharply into two parts. The immediate direct effect of the reduction in output per man (10.0 per cent) was a slight increase in employment (1.8 per cent) and a larger increase in working time (8.1 per cent) and annual earnings (14.9 per cent). In the second period, the effects were increased mechanization, falling employment for the same volume of production (—12.0 per cent), about the same working time (+1.4 per cent) but higher annual earnings for the men still employed (35.8 per cent). This division between immediate effects and final effects after compensatory adjustments by management, is basic for all studies of the regulation of employment by law or contract.

In the first period when output declined 10 per cent, costs rose 14.5 per cent. At the same time, because of government control of prices, sales income increased 18.3 per cent, and operators' margins rose 165.9 per cent. Since some of the mines had been operating at a loss, this is not proof of excess profits. It is evidence that the first and heaviest increase in costs was wholly passed on to the consumer. No study was made of costs and profit margins in the period following compensatory reductions in labor cost.

A second curious result was the increase in fatal mine accidents of 12.8 per cent. Non-fatal accidents also rose slightly.

These results must be viewed within the framework of the industry and the time. The new rates were put into effect on the rising phase of the business cycle, in an industry with high labor costs, where mechanization had not been completed. The operators had the benefit of simultaneous control of prices, and a margin of cash for purchase of new machinery.

Students of the social diseases of low wages and over-long hours are prescribing legal enforcement of higher wages and shorter hours as a remedy for a real and long-continued evil. Only the most rigid economic analysis can say whether the remedy actually cures the disease, or how a better remedy can be found.

EDNA LONIGAN

GILL, C. *Wasted manpower: the challenge of unemployment.* (New York: Norton. 1939. Pp. 312. $2.75.)

Mr. Gill's long experience as a federal relief administrator qualifies him highly to discuss the problem of American unemployment and adds significance to his attitude that the types of remedies tried since 1933 should be continued in larger doses.

Nearly the first half of Mr. Gill's book is devoted to an exposition of unemployment which, though familiar to the economics student, can bear repetition for the sake of the hypothetical intelligent layman. However, a theme not found in the old discussions of the same subject is the author's emphasis of an "irreducible minimum of unemployment" and the "stagnation" of the economic system to which he attributes our chronic mass unemployment.

Tracing the national administration's attacks on unemployment, Mr. Gill finds two general salutary results. The relief problem was approached in the most desirable way through the provision of productive work for the unemployed. The recovery problem was mitigated by increasing purchasing power and stimulating industrial activity. A correlation between business since 1933 and federal public investment is noted. The latter served to bolster private investment which had lost its historic initiative and faced a future of diminishing outlets. In a chapter on the comparable efforts of European governments, no reason is seen for regretting our own.

The future program Mr. Gill envisions requires "a positive social policy" and recognition that the unemployment problems are not temporary, but here to stay. Economic stagnation threatened by under-investment and under-employment can be met by enlarged federal programs of work and employment. The W.P.A. should be opened to the unemployed without reference to need and supplemented by a public works system stabilized at a high level. Accompanying measures should include loans and subsidies to key industries, low interest rates, lower and less rigid prices, taxes resting more heavily on surplus savings than on consumption and new investment, and expanded and liberalized social security programs.

While Mr. Gill is cognizant of the "many-sided nature of the unemployment program," he is not dissuaded by thought of the enormous technical difficulties entailed in the planning, installation and operation of the various units of the program. One infers from his sketch of the rapid evolution of the WPA out of the FERA and CWA that he anticipates that modification could readily be effected to meet future contingencies such as failure of any unit to work out as expected or to coördinate properly with other features on the program. Here, Mr. Gill's optimism contrasts with his severely realistic view of the present-day unemployment situation.

Harry Malisoff

Green, W. *Labor and democracy.* (Princeton: Princeton Univ. Press. 1939. Pp. 194. $2.50.)

Leiserson, W. M. *Labor's right to organize.* Day and hour ser. no. 22. (Minneapolis: Univ. of Minnesota Press. 1939. Pp. 23. 25c.)

Malick, C. P. *Labor policy under democracy.* Stud. in the Soc. Sci., ser. C, vol. i, no. 1. (Boulder: Univ. of Colorado. 1939. Pp. 130.)

This study is a comparative "analysis of democratic methods of dealing with labor disputes and the foundations on which industrial peace rests." It considers the situation in three countries, Great Britain, Germany under the Weimar Republic, and Australia, including references to New Zealand, as illustrations of three different approaches "in which the rôle played by government increases progressively" from voluntary conciliation through compulsory arbitration.

The author next takes up the labor law in the United States, discussing the legal status of collective agreements, legislation pertaining to the railroad in-

dustry, and the problems facing the various federal labor boards. The concluding chapter presents (1) a defense of collective bargaining—a rather curious discussion both from the point of view of what is actually said on the subject and of what has been said in the earlier chapters and (2) proposed governmental machinery for handling labor disputes. Regarding the latter, the author makes much, and rightly so, of the desirability in the establishment of public agencies of distinguishing between disputes over "interests" and disputes over "rights," a distinction which was fundamental in the German machinery under the Weimar Republic and which is recognized at the present time in the federal agencies dealing with the railroad industry in the United States.

T. L. Norton

Roethlisberger, J. J. and Dickson, W. J. *Management and the worker.* (Cambridge: Harvard Univ. Press. 1939. Pp. xxiv, 615. $4.50.)

In the spring of 1927 the Western Electric Company started certain experimental studies to discover the relations between conditions of work and the incidence of fatigue and monotony among employees. It was rather confidently expected that definite answers would be found in a year or less.

This book is a detailed account of how the experiment began, how the unsuspected complexities of the problem forced upon the investigators its restatement and extension again and again and prolonged the original study through five years and from the observation of five employees to more than twenty thousand. It is the inside story of a great experiment in the study of human relations in a factory as carried on by trained men at the plant with the collaboration of scientists at Harvard University in analyzing and interpreting the voluminous data obtained.

Fatigue, monotony, rest pauses, wage incentives, supervision, and other factors were found to be inseparably bound up with the individual's relation to the working unit and with this unit's relation to the factory group as a whole. The informal relationships based on cliques, group sentiments and the workers' appraisals of jobs and methods were found to be more potent in determining the workers' morale than were the formal groups and rules set up by the management. There was no simple answer to the problem of removing the workers' inhibitions respecting output.

To study the problem of the social satisfactions in the working environment that make the workers willing to coöperate, a system of interviewing was developed after much experimentation which won for itself the confidence and respect of the employees so that they were willing to talk freely and honestly about whatever was on their minds, pro or con, with regard to the work or their own problems outside the plant. Analysis and interpretation of these data enabled the management to make intelligent progress toward providing in connection with the work those social satisfactions which are a part of the worker's reward and which make him willing to coöperate more effectively in the common economic purpose of the enterprise.

Business managers will find the book valuable for its suggestions as to how to go about the study of their particular problem of improving morale and securing the benefits of increased output that come with it. Students of labor and social problems will find the book a mine of information as to practical methods of study, and this feature bulks largest in the book.

James A. Campbell

SHALLCROSS, R. E. *Industrial homework: an analysis of homework regulation, here and abroad.* (New York: Industrial Affairs Pub. Co. 1939. Pp. xi, 257.)

SHARP, M. and GREGORY, C. O. *Social change and labor law.* (Chicago: Univ. of Chicago Press. 1939. Pp. vii, 175. $2.)

SLICHTER, S. H. *Economic factors affecting industrial relations policy in the war period.* Industrial rel. monog. no. 3. (New York: Industrial Relations Counselors. 1939. Pp. 32. $1.)

STONE, N. I., assisted by CAHEN, A. and NELSON, S. *Productivity of labor in the cotton-garment industry.* Bull. no. 662. (Washington: U. S. Bur. of Labor Stat. 1939. Pp. viii, 139. 20c.)

STRACKBEIN, O. R. *The prevailing minimum wage standard: a study of the wage standard established by the United States government for the purchase of its supplies.* (Washington: Graphic Arts Press. 1939. Pp. vii, 187. $2.50.)

The author is a member of the Public Contracts Board, which undertakes the investigations to assist the Secretary of Labor on fixing the prevailing minimum wages which contractors must pay when they furnish the varied supplies purchased by the United States government (Public Contracts act of 1936). Inasmuch as minimum wages vary with locality, size of establishment, population density, division of manufacturing processes, policies of employers, length of service, degree of mechanization and other minor factors, the Board has a task of overwhelming complexity. The author discusses the application of the prevailing minimum-wage standards in the boot and shoe, iron and steel, aircraft, soap and cement industries. The presentation is weakened, somewhat, by the use of assumed statistical data in the discussion of the significance of locality in the boot and shoe industry, but minimum-wage determinations in the other industries are presented with much enlightening data gathered by the Board, as well as inside information about the reasoning which supported the varied recommendations. Producing establishments are grouped by zones, and median, modal or even quartile clusterings of wages are utilized for discovering standards which may be regarded as "prevailing." The book is appropriately dedicated "to the growing administrative spirit which seeks in facts the wisdom of its course." The wage regulations of the NRA, WPA, and PWA and government building and supply contracts are relatively new experiments in the United States, although such legal wage fixing has been undertaken for many years in Australia, New Zealand and England. This careful analysis of initial experiments is an important public service.

LUCILE EAVES

UMINSKI, S. *The progress of labor in the United States.* (New York: House of Field. 1939. Pp. 254. $2.50.)

VIAU, J. M. *Hours and wages in American organized labor.* (New York: Putnam's. 1939. Pp. xiii, 301. $2.50.)

This is a résumé of the movement for shorter hours and higher wages in the United States, with some description of early events in the history of labor unions and of wage-hour legislation which has nation-wide coverage. The book was undoubtedly planned for use as a textbook in Catholic schools and colleges. The writer's interest centers in the attitudes of labor leaders, industrialists, and others toward the desirability of shorter hours and higher wages, and toward collective bargaining as a means of achieving these aims. The book is therefore heavily weighted with citations from the speeches of Messrs. Gompers and Green, the proceedings of conventions of the American Federation of

Labor, the pronouncements of the National Association of Manufacturers, and the Encyclicals of Pope Pius XI and Pope Leo XIII.

Little use is made of the increasing volume of statistical materials now available on wage rates, earnings, hours of work, and employment in specific industries or occupational groups. Although the treatment is historical, no clear picture emerges of the changing economic fortunes of any one group of workers, or of American workers in general, as the result of legislative and collective bargaining efforts to secure shorter hours and higher wages. The appendix materials presented are not sufficiently dated or documented to be useful.

The organization of the material is confusing. There is, for example, a chapter on "The teaching of the church on hours and wages" inserted between discussions of various aspects of the National Industrial Recovery act. Its connection with the other material presented is not made clear. The discussion of the economic as opposed to the ethical aspects of wage and hour problems, which is scattered through the text, would have been clearer if concentrated in a single chapter.

Although elsewhere the writer shows an understanding of wage bargaining problems, the introductory chapter states (p. 18) that inequalities of bargaining power between workers and their employers are the result of differences in mental capacity in the two groups. The writer's conclusion may be summarized in the following quotation: "Labor was justified in demanding the shortening of the former extremely long work day and work week. Labor . . . through the process of shortening the daily and weekly hours of labor and insisting upon the same or higher money wage made great headway in securing for itself some of the gains in economic efficiency and progress. . . . It is very probable that the work week as now constituted, about 40-44 hours, should be considered a normal work week. The problem of increasing the real wages of labor and of absorbing our vast army of unemployed can be solved more efficiently . . . if labor would insist upon a more equitable distribution of income and leave the length of the work week as it stands." After some discussion of the latter point in relation to the findings of recent Brookings studies, Sister Viau concludes further that reduction of prices will benefit a larger proportion of the population than wage increases, and is therefore to be preferred as a means of securing a "more equitable distribution of income."

Gladys L. Palmer

Wagner, A. *Labor legislation in China.* (Peking: Yenching Univ. 1938. Pp. iii, 301.)

Wright, C. M. *Here comes labor.* (New York: Macmillan. 1939. Pp. 122. 60c.)

This little book on labor is written for popular consumption and seeks to explain such current questions as: what does labor want, where is it going, and what does labor's present resurgence mean for the average citizen? In answer to these questions the author points out that labor wants freedom to organize and bargain collectively, recognition of the unions by employers, and more of the material goods necessary to provide a higher standard of living. As to where labor is going and what it means, the author makes brief observations on labor structure (including the C.I.O.-A. F. of L. split), labor practices, labor and politics, and New Deal labor legislation. The author views with some concern the possibility of labor's losing some of the freedom for which it has fought so long through too great a reliance upon legislation.

Not a book for the labor student, its easy journalistic style and non-technical language should give it a wide appeal to the average layman for whom it is intended.

E. B. McNatt

Zimand, G. F. *Child labor facts, 1939-1940.* (New York: Nat. Child Labor Committee. 1939. Pp. 38. 25c.)

Annual report of the chief inspector of factories for the year 1938. (London: H. M. Stationery Office. New York: British Lib. of Information. 1939. Pp. 133. 60c.)

Collective bargaining in the newspaper industry: a study of newswriters organizations and representative unions in the mechanical trades and an analysis of the effects upon interstate commerce of industrial conflict within the industry. Nat. Labor Rel. Board bull. no. 3. (Washington: Supt. Docs. 1939. Pp. x, 194. 30c.)

Facilities for the use of workers' leisure during holidays. Stud. and rep., ser. G, no. 5. (Geneva and New York: Internat. Labour Office. 1939. Pp. 96. 75c.)

Hourly earnings in knit-goods industries (other than hosiery) September, 1938. From *Monthly Labor Review,* Nov., 1939. (Washington: Supt. Docs. 1939. Pp. 30.)

Hours and earnings in certain men's-wear industries: caps and cloth hats, neckwear, work and knit gloves, handkerchiefs. Bull. of the Women's Bur. no. 163-6. (Washington: Supt. Docs. 1939. Pp. v, 22. 5c.)

Industrial Commission of Wisconsin: biennial report, 1936-1938. (Madison: Ind. Commission of Wis. 1939. Pp. 78.)

Legal status of women in the United States of America, January 1, 1938: report for California. Bull. of the Women's Bur. no. 157-4. (Washington: Supt. Docs. 1939. Pp. 20. 5c.)

Money disbursements of wage earners and clerical workers in five cities in the West North Central-Mountain region, 1934-36. Bull. 641. (Washington: U. S. Bur. of Labor Stat. 1939. Pp. 390. 35c.)

National Labor Relations act: hearings, 76th Cong., 1st sess., on S. 1000, S. 1264, S. 1392, S. 1550, S. 1580, and S. 2123 bills to amend the National Labor Relations act. Parts 12-23. (Washington: Senate Committee on Educ. and Labor. 1939. Pp. 2175-2379; 2381-2573; 2575-2749; 2751-2939; 2941-3156; 3157-3362; 3363-3565; 3567-3765; 3767-3962; 3963-4156; 4157-4377; 4379-4633. Parts 12-15, 20c; Parts 16-23, 25c.)

National Labor Relations act: hearings, 76th Cong., 1st sess., relative to proposed amendments to the National Labor Relations act (eight volumes), supplement. (Washington: House Committee on Labor. 1939. Pp. 83. 15c.)

Profit sharing: hearings, 75th Cong., 3rd sess., pursuant to S. Res. 215, providing for an investigation of existing profit-sharing systems between employers and employees in the United States, November 21 to December 14, 1938. (Washington: Senate Finance Committee. 1938. Pp. 591. 60c.)

Shift schedules in continuous-process industries, including the effects of the Fair Labor Standards act of 1938 upon such schedules. (Stanford University, Calif.: Stanford Univ. Div. of Ind. Rel. 1939. Pp. v, 26.)

Survey of experiences in profit sharing and possibilities of incentive taxation, report of subcommittee to the Committee on Finance, United States Senate, pursuant to S. Res. 215 (75th Congress), resolution providing for an investigation of existing profit sharing systems between employers and employees in the United States. (Washington: Supt. Docs. 1939. Pp. 351. 30c.)

Urban negro worker in United States, 1925-1936. Vol. II. *Male negro skilled workers in the United States, 1930-1936.* (Washington: Interior Dept. Office of Adviser on Negro Affairs. 1939. Pp. 87. 25c.)

Money, Prices, Credit, and Banking

Consumer Credit and Economic Stability. By Rolf Nugent. (New York: Russell Sage Foundation. 1939. Pp. 420. $3.00.)

This book presents the results of an investigation initiated in 1934 by the Consumers' Advisory Board of the National Recovery Administration and carried on with the support of the Russell Sage Foundation under the direction of Dr. Rolf Nugent, director of the Foundation's Department of Consumer Credit Studies. It is an important contribution to the literature of consumer credit, making available an impressive amount of statistical material in a hitherto neglected field.

In part 1 of the book Dr. Nugent traces the development of consumer credit and of the agencies extending it between 1800 and 1938. The treatment for the early years is necessarily general, but for the years since 1922 a clear and comprehensive picture of the quantitative aspects of consumer credit is for the first time presented. Part 3 is devoted to a detailed study of the sources of data and the methods used in developing estimates of receivables of four general classes of consumer credit agencies: retail merchants, service creditors, intermediary financing agencies and cash-lending agencies. The fullness of the description inevitably suggests grounds for disagreement; but the discussion of data and method will prove extremely valuable to the statistician doing further work in this field and to the economist considering the author's theoretical conclusions.

Repeated warnings are given throughout the book that the estimates for the early years are merely crude approximations and that large potential errors are inherent in the estimates even for recent years. This would appear especially true with respect to the estimates of receivables of service creditors and of the loan balances of cash-lending agencies. The regular use of footnotes to indicate the sources of material and the bases of estimates contained in the 67 tables and charts would have increased the convenience of the book for reference purposes and would have decreased the danger that the figures will be quoted without the warnings and qualifications contained in the text.

Three functional categories of consumer credit are identified. The oldest of these, consumers' deficit financing, is particularly difficult to measure because it represents varying proportions of the receivables of many types of creditors. Dr. Nugent finds that while consumers' deficit financing moves inversely with the business cycle, income-period financing and consumers' capital financing move directly with the business cycle, their move-

ments depending largely on changes in volume of retail sales. Until the late 1920's, credit used for financing consumption between dates when incomes are paid represented the largest category of consumer credit; but consumers' capital financing has increased as a result of competition in the market for consumers' durable goods until it now dominates the aggregate movement of consumer credit, and the cyclical movements of this category of consumer credit appear to Dr. Nugent to be increasing in amplitude.

The theoretical conclusions are to be found in part 2 of the book, "Economic consequences of consumer credit fluctuations." Taking the incomplete utilization of the factors of production as his point of departure, and relying heavily on J. M. Keynes for his theoretical analysis, Dr. Nugent concludes (p. 220) that "the expansion of consumer credit accelerates and prolongs the boom, while its contraction deepens, widens, and prolongs the depression." He urges that control of consumers' capital financing, the most volatile category of consumer credit, is desirable in the interest of stability, and that the control can best be exercised by manipulating the requirements with respect to down-payments and periods of amortization in the installment sales of consumers' durable goods. He looks to the supervision of banks under the federal reserve system, and to the limitation of portfolios of banks to consumer paper which meets requirements fixed by the "system," as the means of stabilizing the outstanding amount of consumer credit. Curiously enough, the author suggests that representatives of consumer financing agencies and of manufacturers of consumers' durable goods participate with the central banking authorities in the formulation of policies for the control of the terms of credit.

The theoretical analysis appears to the present reviewer to have the distortion common to theories of the business cycle in which one of the many elements whose interaction produces the cycle is singled out as being of primary importance. It rests, in any case, upon data which, though by far the most comprehensive thus far produced, are admittedly tentative in character.

HENRIETTA C. JENNINGS

Wheaton College, Massachusetts

Personal Finance Comes of Age. By M. R. NEIFELD. (New York: Harper. 1939. Pp. ix, 324. $3.50.)

"An authoritative and comprehensive statement of the present legal, social and business status of the small-loan business throughout the country." Thus does the jacket of this book describe the publication by the economist for the Beneficial Management Corporation, one of the largest operating units in the so-called small-loan field. Dr. Neifeld has written from the

inside and has presented the most comprehensive study that has yet appeared in this general area of consumer credit. In the main the work is descriptive and historical and presents the subject in such detail as to give a clear picture of this relative newcomer in lending in the United States. It is quite evident that the author is thoroughly convinced of the socially desirable function performed by small-loan companies, so much so that he does not, in the opinion of this reviewer, take proper account of the criticisms that have arisen in connection with lending by small-loan companies. Perhaps this is not a legitimate criticism if Dr. Neifeld is attempting only the task of showing what these companies do rather than of presenting a complete justification for all their practices.

The numerous statistical tables and data bear witness to the author's industry and to his knowledge of the subject he presents. Space permits only a few observations that impress one reviewer as significant and interesting. The typical borrower from a small-loan company is not so much interested in the rate of interest he has to pay as he is in being able to secure, without embarrassment, the money needed (pp. 40-41). As to the rate that should be fixed by law, Dr. Neifeld says that "too low a rate will not attract capital; or . . . too drastic a reduction will cause capital to leave the field open to operators who disregard the law" (p. 52). And yet, in another place he says that "the small-loan operator himself can control, as a matter of management policy through selection of the size of the loan and by elimination of the unprofitable brackets from his operations, where the break-even point shall come and the extent of the profits" (p. 176).

Does this not mean that all those studies made to show what rate of interest is required and what profit results from a given rate (as King's study for New Jersey) are inconclusive because the rate charged determines the clientele that will be served. The fixing of a proper rate becomes, then, it would seem, a sociological problem of determining what borrower is to be accepted rather than the simple financial problem of a rate that will give a reasonable return to capital invested. The lower the rate the more selective the clients served. Dr. Neifeld is first of the authors in this field to admit, by implication, the validity of this view which, if true, makes practically worthless those studies designed to show that a given rate is requisite to the earning of a given return on capital. Along the same line he holds that "when it comes down to the practical matter of comparing operations company by company, the yardstick of price is inadequate. The extent of the service and the degree to which public policy is best served become important accompaniments of a given rate" (p. 88). As to earnings, reports to various banking departments show that for 1936 earnings of small-loan companies, before interest on borrowed and capital funds, were 8.28 per cent on assets used and useful in the business (p. 212).

That competition is not sufficient to bring rates down is apparent when,

as Dr. Neifeld discloses, small-loan company operations fit into the category of "decreasing cost per loan as the volume of loans increases" (p. 204). One method of reducing interest rates, it would appear therefore, is a drastic limitation of the number of companies relative to population served.

The author has a high regard for the capacity of the small-loan companies to adopt self-regulation in the public interest: "To other business and industry went the honor of formulating Code No. 1 [under N.I.R.A.], but to personal finance came the satisfaction that its house was swept and garnished, the lamps trimmed and burning brightly before the clarion call to righteousness had penetrated to those cowering in the economic underbrush" (p. 74). Then, why need regulation by law?

At the risk of appearing to be ungracious in commenting upon a book so packed with useful information, the reviewer expresses regret that the bibliography (not listed as "selective") omits mention of the only serious criticism of small-loan company operations that has appeared in this journal.[1] It also gives no reference to a round-table discussion of this general subject, favorable and unfavorable, at the annual meeting of the American Economic Association in 1930.[2]

CLYDE OLIN FISHER

Wesleyan University

The Pound Sterling: A Study of the Balances of Payments of the Sterling Area. By IMRE DE VEGH. (New York: Scudder, Stevens and Clark. 1939. Pp. vi, 130. Gratis.)

These eight studies of the sterling area, for the years 1931-38, are a bold innovation in the field of special-area balances of payments. That type of study was originated by Dr. Rufus S. Tucker, in his tables of payments between the United States and each continent; see the Commerce Department's pamphlet, *Balance of International Payments of the United States in 1934.*

Five years later the special-area idea was advanced to cover payments between two countries. A study of payments between the United States and the United Kingdom during 1928, by the reviewer, first appeared in *Commerce Reports,* published by the Department of Commerce. A year later Professor Ralph Young did a similar study for that weekly.

A Franco-American balance of payments, by the reviewer, appeared in *The Annalist,* November 8, 1929. A Japanese-American study, by Herbert M. Bratter, will be found in *Commerce Reports,* January 19, 1931. An annual series of Canadian-American studies, by Herbert Marshall

[1] C. O. Fisher, "Small Loans Problem: Connecticut Experience," *Am. Econ. Rev.,* June, 1929, pp. 181-197.

[2] "The Small-Loan Business," *Am. Econ. Rev. Suppl.,* March, 1931, pp. 11-26.

of the Dominion Bureau of Statistics, was begun at about that time; Mr. Marshall's able work was the principal base of a study by the Carnegie Peace Foundation. When George N. Peek was special adviser on Foreign Trade, around 1935, special-area studies of payments between the United States and each of numerous countries were made; these, however, were but indifferently done and received little attention.

Colonial studies began with a highly enlightening survey of payments between the United States and the Philippines by Dr. Tucker in the *Harvard Business Review,* October, 1929. Official surveys of payments between The Netherlands and its principal colony were begun about three years ago.

Mr. de Vegh's report must be noted by every student of balances of payments, if only to appraise the results of serious research with a new concept. Those results seem, however, rather thin. Definite conclusions, adduced from the new balances of payments, are few. De Vegh is commendably cautious in his reservations.

The author displays impressively broad and detailed knowledge of international dealings in recent years. Especially valuable is his report on the Exchange Equalization Account of the Bank of England (pp. 90-99). In later pages he lists reasons for concluding—not directly from his statistics—that "weakness and dangers . . . combine to make the pound sterling a very poor risk" (p. 111). "A stoppage of gold purchases by the United States Treasury . . . would precipitate a major crisis in the position of the pound" (p. 110).

De Vegh's method of bulking the international payments of 12 countries, identified as within the sterling area, seems dubious. A balance of payments must have a definite period and a sharp area. And the sterling area has but vague boundaries. The "full sterling-reserve" countries seem definite enough (p. 8); but some of the countries "holding sterling reserves" are in a changing twilight zone. (The omission of Greece from the latter group is a minor oversight.) At most, should not the author have confined his studies to the "full sterling-reserve" area?

De Vegh counts new gold production as a balance-of-payments credit (pp. 19, 21, and 28-9). Gold does possess "unlimited marketability" (p. 18), and it is the very sinew of sterling exchange; but should it enter any balance of payments until it has left the producing country or been earmarked there? Would it not have been better to exclude new gold production from the tables but cover it in detail in the text? As regards one important gold-producing country (Canada), the reviewer finds that, marginally, gold strongly tends "to follow the loan." If this should be found true of South Africa, also, new gold production can be counted upon for sterling support only guardedly.

Ray Ovid Hall

Washington, D.C.

NEW BOOKS

ARNDT, E. H. D. *The South African mints.* Pubs. ser. no. iii, arts and soc. sci. no. 9. (Pretoria: Univ. of Pretoria. 1939. Pp. vi, 115. 3s. 6d.)

CONOLLY, F. G. *Reflections on the cheap-money policy, particularly in England.* Suppl. to Svenska Handelsbanken's *Index,* Oct., 1939. (Stockholm: Svenska Handelsbanken. 1939. Pp. 20. 1 krona.)

DUTT, S. N. *The economics and law of central banking.* (Calcutta: Chuckervertty Chatterjee. 1939. Pp. 26. 6 annas.)

EMDEN, P. H. *Money powers of Europe in the nineteenth and twentieth centuries.* (New York and London: Appleton-Century. 1938. Pp. xii, 428. $3.50.)

The money powers are bankers and banks. No one receives enough attention to arouse deep interest or real understanding. The arrangement is neither logical nor chronological. The chapters are rambling notes from books read but only partly digested. Many tales are started; none are finished. There is no thesis and no pattern.

N. S. B. G.

FOSTER, W. T. *Loan sharks and their victims.* Public affairs pamph. no. 39. (New York: Public Affairs Committee. 1940. Pp. 31. 10c.)

GILBERT, M. *Currency depreciation, 1929-1935.* A dissertation. (Philadelphia: Univ. of Pennsylvania. 1939. Pp. xiii, 167.)

GRAHAM, F. D. and WHITTLESEY, C. R. *Golden avalanche.* (Princeton: Princeton Univ. Press. 1939. Pp. xv, 233. $2.50.)

GRAHAM, M. K. *A handbook of monetary theory.* (Nashville: Parthenon Press. 1939. Pp. 78.)

Mr. Graham states in his foreword that because of their rich and varied information the essays in Professor Arthur Gayer's *Lessons in Monetary Experience* should be abstracted for clarification and study. An abstract for Graham's own use is here offered to assist others in comprehending this valuable compilation of monetary essays. As with most abstracts, the condensation of material covering many pages in the original results in some ambiguities, although on the whole Mr. Graham's abstract is clear and will prove especially helpful to graduate students.

WILLIAM WITHERS

HELMS, L. A. *The contributions of Lord Overstone to the theory of currency and banking.* Stud. in the soc. sci., vol. xxiv, no. 4. (Urbana: Univ. of Illinois Press. 1939. Pp. 142. $1.50.)

HOLGATE, H. C. F. *The contingent liabilities of the English commercial banks.* (London: Gee. 1939. Pp. viii, 77. 5s.)

JAMES, F. C. *A colloquy on branch banking: contemporary questions and answers.* (New York: Am. Economists Council for the Study of Branch Banking. 1939. Pp. 28. Gratis.)

KAMP, M. E. *Die geldliche Wechsellagenlehre: Darstellung und Kritik der geldlichen Wechsellagentheorien von Hawtrey, Wicksell und Hayek.* (Jena: Fischer. 1939. Pp. 143. RM. 4.50.)

LESTER, R. A. *Monetary experiments: early American and recent Scandinavian.* (Princeton: Princeton Univ. Press. 1939. Pp. xvii, 316. $3.50.)

LINDAHL, E. *Money and capital.* (London: Allen and Unwin. 1939. Pp. 391. 10s. 6d.)

MÜHLENHOFF, H. *Die englische Währungsabwertung und die wirtschaftlichen Wechsellagen.* (Jena: Fischer. 1939. Pp. viii, 136. RM. 5.)

ROSE, M. and HORNE, R. L. *Money.* Rev. ed. (Chicago: Univ. of Chicago Press. 1939. Pp. 43. 25c.)

SCHNEIDER, F. P. *Zur Theorie der Goldwährung.* (Jena: Fischer. 1939. Pp. viii, 176. RM. 7.50.)

STEFFEN, R. T. *Cases on commercial and investment paper.* (Chicago: Foundation Press. 1939. Pp. 965. $6.)

THORNTON, H. *The paper credit of Great Britain.* Edited by F. A. VON HAYEK. (New York: Farrar and Rinehart. 1939. Pp. 368. $3.50.)

This volume is a reprint of Henry Thornton's famous *Enquiry into the Nature and Effects of the Paper Credit of Great Britain,* first published in London in 1802. In addition to the *Enquiry,* the volume contains three appendixes, the first presenting the evidence of Henry Thornton before committees of secrecy of both Houses of Parliament on the Bank of England, March and April, 1797. Appendix 2 consists of some of Thornton's manuscript notes on the Bank restriction (1804) ; and the last appendix comprises two speeches by Thornton on the Bullion report, in 1811.

So much for the reprints. The publishers secured the services of F. A. v. Hayek to edit the volume, and Hayek's introduction of some 63 pages adds materially in the interest of the book. The introduction is biographical in character, the first part describing the man Thornton, his inheritance and his environment, the second section dealing more largely with Thornton's work and the value of his contributions. Some excellent bibliographical notes are also appended to the introduction.

The publishers are to be congratulated in undertaking the reprinting of this and other outstanding early works, now out of print and difficult to obtain. Through this undertaking, known as "The Library of Economics," students will be enabled at a moderate price to possess their own copies of the more famous books and studies of these brilliant early economists.

FREDERICK A. BRADFORD

WATKINS, L. L. *Commercial banking reform in the United States, with especial reference to the 100 per cent plan and the regulation of interest rates on bank deposits.* Michigan bus. stud., vol. viii, no. 5. (Ann Arbor: Univ. of Michigan Bur. of Bus. Res. 1938. Pp. 133. $1.)

This monograph is divided into two parts, the first dealing with programs of regulation and reform, and the second with the regulation of interest on deposits. The bulk of part 1 is taken up with an analysis and appraisal of the 100 per cent reserve plan. Professor Watkins considers a number of plans coming under this general head, subjects them to analysis and criticism, and finally concludes that a compromise system is probable.

The second part constitutes a well-rounded discussion, including historical background, of the regulation of interest on bank deposits, and contains some acute suggestions on the part of the author in respect to the possibility of credit control through alterations in such interest rates by the regulatory authority.

Perhaps the most pertinent criticism of this interesting study, and a relatively minor one, is that the title is too comprehensive. A number of significant phases of commercial banking reform are not considered or are mentioned only cas-

ually. Those aspects which are treated, however, have been covered in thorough and satisfactory fashion.

FREDERICK A. BRADFORD

WESTERFIELD, R. B. *Commercial banking attitudes toward federal savings and loan associations.* (Chicago: U. S. Savings and Loan League. 1939. Pp. 20.)

WILCOX, F. E. *A statistical study of credit unions in New York.* (Chicago: Univ. of Chicago School of Business. 1940. Pp. ix, 91. $1.)

WOOD, E. *English theories of central banking control, 1819-1858, with some account of contemporary procedure.* Harvard econ. stud., vol. lxiv. (Cambridge: Harvard Univ. Press. 1939. Pp. xiii, 250. $5.)

Silver Purchase act: hearings, 76th Cong., 1st sess., on S. 785 bill to repeal the Silver Purchase act of 1934, to provide for the sale of silver, and for other purposes. (Washington: Senate Banking and Currency Committee. 1939. Pp. 150. 15c.)

Public Finance, Taxation, and Tariff

The Federal Income Tax. By ROY G. BLAKEY and GLADYS C. BLAKEY. (New York: Longmans Green. 1940. Pp. 650. $7.50.)

In this work, the long labors of Professor and Mrs. Blakey on federal taxation reach a fitting climax. Those numerous articles in the *Review* and indeed all else that they have written seem but preparation for this, the real task ahead. To it, they brought not only academic preparation, but the experience gained by Professor Blakey during several years in Washington and enriched by many contacts with legislators and administrators. Secretary Cordell Hull, who, in the words of Professor Blakey, "has probably done more than any other living man to establish and develop a good income tax in the United States" was particularly interested and helpful. Indeed, it seemed probable at one time that he would collaborate in writing the book. Judge William Green, for a long period Chairman of the Ways and Means Committee, is also credited with giving much assistance. Several prominent tax administrators are also mentioned as being helpful.

The book itself includes twenty-four chapters. The first traces the origin of the movement for an income tax, and the second discusses the corporation excise tax of 1909 and the sixteenth amendment. These are followed by eighteen chapters, each treating a revenue act, or the tax measures of an act bearing another title, and discussing any controversies that may have arisen in connection with it. In this way the issues of excess profits, estate, and undistributed profits taxation are included. The next three chapters deal with the special problems of the evolution of the definition of taxable income, rates and exemptions, and administration. The last chapter undertakes an evaluation of the income tax. Supporting references are numerous throughout the text and an extensive bibliography is attached.

The treatment is in the historical emphasis. Thus the income tax is

viewed not as a finished instrument of revenue, but as one in process, shaped by many influences. The economic and social setting, the political issues, the debates in Congress, the work of committees, the decisions of judges, and the task of administration all find a place in the pages of this book. The discussion is often illuminated—and most effectively—by side lights. Thus in locating the origin of the movement for an income tax, the state of residence of each member of Congress introducing a bill for an income tax is given. The influence of Secretary (then Representative) Hull's study of British income tax is shown in the first draft of the income-tax law of 1913 which he prepared. Side lights of a different kind are given by well-chosen quotations from newspapers, political speeches, biographies, and by occasional characterizations of leading figures in the events described. The facts behind the facts are not neglected. Here is no dry tale of tax changes but living history.

The reviewer was particularly impressed with the first two chapters, which treat the origin and beginning of income taxation. They trace the way from a movement arising out of social and economic conditions in the West and South to a statute of Congress and an amendment to the Constitution, and make of it a story at once convincing and interesting. The next eighteen, the body of the book, may be characterized as an excellent history of the operations of the income tax. The last four chapters attract the student of taxation because of the broad issues that they examine in the light of the preceding historical material. The answers are, as would be expected from the treatment, in the historical emphasis.

This book bears the marks of solid, painstaking scholarship. But it was written for the reader. The sentences and paragraphs used yield clear meanings. The numerous tables and charts included are used effectively. And the result is not only instructive but interesting. In short, here is a work of outstanding quality.

M. Slade Kendrick

Cornell University

The Treasury and Monetary Policy, 1933-1938. By G. Griffith Johnson, Jr. Harvard Univ. Dept. of Govt. ser. (Cambridge: Harvard Univ. Press. 1939. Pp. 230.)

Entering office at the nadir of the depression, the public in a tragic state, the Roosevelt Administration, with a mandate from the people to "save them," chose to take first, for the way out, what were considered extraordinary measures in the money and banking field. But in this area there had been nurtured the tradition that politics and money should be kept apart, that credit control was something to be reserved for an independent, non-political agency. This, indeed, was a paradoxical situation in a sup-

posedly democratic country, where even the highly-prized and much-worshipped Constitution gave Congress the explicit power "to coin money and regulate the value thereof."

Strangely enough, the restoration of confidence was immediately sought by departing from that supposed bulwark of confidence—the gold standard. To those who may be sceptical, it would seem that the author offers convincing testimony that there is no sanctity in the gold standard; that it is but a means to an end, and has been so treated by other nations when it stood in the way of desired goals. Dr. Johnson offers no encouragement to those who yearn for the restoration of gold, arguing that such a step would be futile under the existing disequilibrium, and advocates, as an alternative, coöperation among the exchange funds.

Following an analysis of the gold policy, the author takes up in turn the most important channels through which the Treasury's power has been exerted—the stabilization fund, gold sterilization, and the silver purchase program. But it is emphasized that subsequent events and policies were largely shaped "by the revaluation of the dollar, as a result both of the fixation itself in terms of gold and of the level of fixation." There are traced in considerable detail these monetary policies and their consequences.

The pivotal decisions respecting monetary policies have been made not by the Treasury Department but by the President. This is stated to be due not only to the American governmental set-up, but to the immense personal and political prestige of Roosevelt. In handling most of the monetary policies, the Administration possessed an extraordinary amount of discretion. Congress delegated to the Executive not merely almost complete discretion in actual operations, but the power to make fundamental policy decisions. The criteria by which the newly acquired powers were to be exercised were largely the conceptions of "the public interest" held by the President and his associates.

Dr. Johnson's work shows clearly how the government took control of central banking powers out of private hands and placed it with its own agencies. This intrusion upon the functions of the federal reserve system as it had been operated is due to its close relationship to private business and finance. The Administration chose not to risk the implementing of its social objectives by the privately owned and operated reserve banks. In contrast with the financial power working through the New York Reserve Bank, the source of dominance of the Administration's power in monetary affairs has been the national community. Policies were launched, organizations created and techniques undertaken deliberately for the furthering of the well-being of the nation. Why should monetary policy ever have been left to the control of individuals outside the political framework of government—to, for example, the Federal Reserve Bank of New

York? The Roosevelt Administration undertook to achieve recovery not merely through monetary instruments but by comprehensive fiscal programs. Upon the present state of complexity and interdependence in our social order are thus piled a maze of intricate and subtle threads of money, credit, and finance, the vast influence of which is evident with profound consequences for the future.

In the new order of things, Dr. Johnson holds that the broad socio-economic problems facing the country purporting to be a democracy are properly subject to parliamentary direction and executive control, that the monetary and fiscal problems are necessarily bound up with them, and that the solution of them all definitely rests with the government. There are dangers in the political management of money and credit to be sure, but these are considered relatively insignificant in view of the breakdown of capitalistic democratic economy. The work is a good descriptive and analytical survey of the development of monetary policies during those years of rapid change. In organization and balanced judgment, it leaves little to be desired. Although the author allows no doubt of his preference for democracy and of his desire to maintain democratic controls, he admits that this is one of the important problems awaiting solution in the future.

LAWRENCE CLARK

Hunter College

State and Federal Grants-in-Aid. By HENRY J. BITTERMANN. (New York: Mentzer Bush. 1938. Pp. x, 550. $4.00.)

Although Professor Bittermann does not claim to have given a definitive treatment of the subject of state and federal grants-in-aid, his book easily ranks as the most comprehensive study that has yet been made in the United States. It is essentially an analytical inquiry into the use of the subvention from the standpoints both of finance and administration. The importance of such a study is apparent from the fact that the annual expenditure for grants-in-aid now approximates a billion dollars, while the states "expend about a fourth of their revenues in this way." Federal grants have come into much prominence recently because of the broad and extensive relief program, yet state subventions have occurred over a much longer period and have been, in the main, of much greater fiscal significance.

The grant-in-aid, as used by Professor Bittermann, is a subsidy from a higher to a lower order of government "to defray part of the cost of a service administered by the local authority." The central government usually imposes certain restrictions or conditions under which funds must be administered. The purpose of subsidies has been primarily to improve the standard of local services or to effect a given minimum of efficiency, though not to reduce the standards of all localities to the same level of

equality. Thus the grant-in-aid has proved a powerful lever by which to force local government officials who are indifferent to the needs of the community, to accept standards that are set by the central government. Failure to do so may mean the loss of subsidies and an increase in local tax rates. While states have the option of using other fiscal devices, such as the sharing of taxes with localities or permitting additional rates to be imposed, the federal government, except for powers expressly granted by the constitution, is, in the promotion of national policy, more definitely limited to the use of grants-in-aid. In the main, however, federal subventions are of much more recent origin than those of the states.

The two main activities in which American state governments have made direct grants to local governments are schools and highways. Public school systems were established as a result of financial assistance derived from state surplus revenues and from federal land grants. Frequently also state constitutions have provided that receipts from specified sources of revenue should be appropriated to the public schools. There has been a notable rise in per capita grants-in-aid for schools during recent decades, especially in those states whose tax sources are independent of local revenues. During the nineteenth century, the maintenance of highways fell almost entirely to local administration and finance. This policy was greatly changed when new sources of revenue were discovered through levies on motor vehicle and motor fuel taxes. For all purposes state subventions reached a total in 1932 of $618,587,000. Following this year, relief became an important item in state contributions, while since 1937 it has been necessary to provide funds for the social security program. Thus "estimating state expenditures as approximately $2,200,000,000 annually and local revenues as about four and a half billions, it may be inferred that grants-in-aid have in recent years represented about 45 to 50 per cent of state expenditures and from 18 to 20 per cent of local revenue receipts." The aggregate of federal grants for highways, public health, the improvement of agriculture, extension teaching, vocational education and other purposes, increased from $2,703,000 in 1902 to $238,068,000 in 1932. Such grants had a phenomenal rise in 1933 and the years following, as a result of the federal relief program, and it may be said that not only have the "traditional methods of public finance and administration been greatly modified," but also even if abandoned, federal relief activity has greatly affected the relations of the national government with the states and of state governments with local affairs.

Professor Bittermann is to be highly commended for the objective and scientific appraisal which he has made of the grant-in-aid as a fiscal device. He readily admits that this device is not the sole or entire solution of the problems of local governments, but holds that both federal and state subventions may be used to stimulate inferior governments to conform with

given standards or to undertake new services. A program of reform may be facilitated when opposition would be offered to direct control by a central authority. The author feels that an extension of grants to include new services might well be made, especially in the fields of public health, social security, and general education. It might even be advantageous for the states to aid the municipalities in the more debatable realm of crime control and police work. One may agree with Professor Bitterman's final conclusion that the grant-in-aid "is the most practicable way of reëstablishing an equilibrium between central and local finance."

TIPTON R. SNAVELY

University of Virginia

German Financial Policies, 1932-1939. By KENYON E. POOLE. Harvard econ. stud. 66. (Cambridge: Harvard Univ. Press. 1939. Pp. xiv, 276. $3.50.)

The purpose of this study is to analyze the financial aspects of Germany's attempts to raise production and employment above the low levels of 1931. The author makes no attempt to cover all phases of economic life. In particular, he passes over the international side of the question, on the ground that proper treatment would require a separate volume. Obviously his interest in the monetary and financial repercussions of a public expenditure policy is deep and thorough-going, and his acquaintance with the conclusions of others is sufficiently wide. No approval or disapproval of a "political" nature appears in the text and no speculation as to the future of the German economy in war-time conditions has been permitted to appear.

The writer himself puts emphasis upon the sequence of the four chapters. Chapter 1 deals with recovery measures precedent to the public works programs, and attempts to show that despite the apparent failure of Brüning's and Papen's measures a groundwork was laid for greater success under Hitler. Papen's tax remission plan, decreed on September 4, 1932, has been called a failure because it did not measurably raise the volume of employment and production. But it was unnecessarily complicated and it was not given a thorough trial. It may still be argued that such a scheme has advantages, given careful provisions and favorable conditions. In conclusion, we are reminded that an important advantage of tax remission over public works is that, while the latter involve management by the state, tax remission, once started, operates automatically and encourages the government to remain within its traditional functions.

Under the title, "The financing of the upswing, 1932-1939," the hundred-and-some pages of chapter 2 include discussion of the methods open to the German government, the financing of public works, the part played by the intricate banking mechanism, the Reich public debt, and the

ultimate financing of recovery. Here is information, argument and conclusion that any reader should welcome for his intellectual background in these troubled times. The story of Schacht's rebellion against hidden or overt inflation is told. The process of financing to some extent public works out of the wages of workmen and the salaries of white-collar workers is described. When credit expansion is to be avoided, "the operation really consists in drawing off part of nominal wages and salaries, and paying them out again, so that the quantity of money impinging on the price level is smaller than it seems" (page 162). The dangers of making no allowance for the fact that it has never yet been possible to maintain uninterruptedly an unbroken increase in production are pointed out.

After a digression of eight pages on taxes on profits in relation to the business cycle, the author reverts to the theme of the effect of civil public works on industry. An analysis of construction and other important industries indicates that difficulties may arise if one or two are selected, depression after depression, for government support. At the end doubt is expressed whether we can yet get close enough to laboratory conditions to trace very far the repercussive effects of government expenditures on a nation's economy.

The honesty of this expressed doubt as to the universality of some of the conclusions detracts not one whit from the value of this careful study. For the general reader it may lack the unity of thought that is so apparent to the writer; it may lack as well the non-technical complexion that pleases the publishers. It remains a valuable historical record and a clear exposition of problems for which students will not stop trying to find solutions.

ALZADA COMSTOCK

Mount Holyoke College

NEW BOOKS

ANDREADES, A. M. *Begründer der Finanzwissenschaft in Griechenland.* (Jena: Fischer. 1940. RM. 13.50.)

BLACK, D. *The incidence of income taxes.* (London: Macmillan. 1939. Pp. xxi, 316. 12s. 6d.)

BOWEN, H. R. *English grants-in-aid: a study in the finance of local government.* Stud. in soc. sci., vol. xi, no. 1. (Iowa City: Univ. of Iowa. 1939. Pp. 156. $1.)

FRIEDRICH, C. J. and MASON, E. S. *Public policy: a yearbook of the Graduate School of Public Administration, Harvard University.* (Cambridge: Harvard Univ. Press. 1940. Pp. xiii, 391. $3.50.)

HALL, J. K. *A study of probated estates in Washington with reference to the state tax system.* Pubs. in the soc. sci., vol. 11, no. 1. (Seattle: Univ. of Washington. 1939. Pp. v, 56.)

This is a study of the distribution of estates, and more particularly their composition in the forms of realty, tangible personalty, and intangible personalty. Data for the years 1928, 1933, and 1935 were obtained from six Washington counties by the Washington Tax Commission.

The purpose is to develop tax implications in terms of the existing state and local tax system chiefly by: (1) determining the relative importance of realty, tangible personalty, and intangible personalty; (2) ascertaining the nature of their distribution in relation to size of estates; (3) finding the distribution of representative and non-representative intangibles in intangible personalty; and (4) establishing a breakdown of intangible personalty into its important types.

It is stated (pp. 7, 10) that the 7,992 estates "subject to analysis" represent all estates probated during the three years, yet it seems unusual that all estates probated were also inventoried. Hall relies too heavily on probate records as a source of accurate data on distribution of property among living persons. Moreover, shortcomings of inventory appraisals as a basis for determining precisely the relative distribution of realty, tangible personalty, and intangible personalty are not fully explored. The findings, however, compare approximately with results of six similar studies and the Federal Trade Commission survey.

The relative importance of realty, tangible personalty, and intangible personalty in all counties for the three years is 39.67, 3.29, and 57.04 per cent respectively. Intangibles are subject neither to property nor income tax in Washington.

The larger the estate the greater the proportion of intangible property found in it. In estates of $100,000 and above, 77.63 per cent of property held consists of intangibles. Holdings of federal, state, and local securities are relatively small, even in large estates.

Of all estates, 82.27 per cent were valued at less than $10,000 and these held only 26.21 per cent of total property value, and 16.56 per cent of total intangible personalty, but 38.29 per cent of total realty.

Realty comprises over half the value of properties in rural estates as against 38.48 per cent for urban estates.

Conclusions are that the tax system is regressive, unequal in burden, fails to touch intangibles, and relies excessively on sales and excise taxes. The property tax falls entirely on 42.96 per cent of total property. This statement of exact percentage seems a bit unguarded. Finally, Hall suggests that a net income tax (Washington has none) is the most effective method of taxing intangible personalty yet devised.

This monograph, despite criticisms made above, constitutes a contribution to the literature of wealth distribution and that of taxation.

Roy C. Cave

Hazelett, C. W. *Incentive taxation.* Rev. and enl. ed. (New York: Dutton. 1939. Pp. 202. $1.50.)

Hope-Jones, A. *Income tax in the Napoleonic wars.* (London: Cambridge Univ. Press. New York: Macmillan. 1939. Pp. x, 145. $2.25.)

Johnson, G. G., Jr. *The Treasury and monetary policy, 1933-1938.* (Cambridge: Harvard Univ. Press. 1939. Pp. 239. $2.75.)

Kilpatrick, W. *State supervision of local budgeting.* (New York: Nat. Municipal League. 1939. Pp. 131. $1.)

Krout, J. A., editor. *The effect of the war on America's idle men and idle money.* Proc., vol. 18, no. 4. (New York: Acad. of Pol. Sci., Columbia Univ. 1939. Pp. 133. $2.50.)

Lasser, J. K. *Your income tax.* 1940 ed. (New York: Simon and Schuster. 1939. Pp. 125. $1.)

NEFF, F. A. *Municipal finance, with emphasis on trends since 1900.* (Wichita, Kansas: McGuin Pub. Co. 1939. Pp. xii, 330. $3.)

The rapid and widespread growth of urban life especially since 1900 has brought about financial needs out of proportion to the increase in population and the income from the usual sources, not so much because ". . . the same service costs more as cities increase in size as it is that more and better services are demanded from communal enterprises and municipal administration" (pp. 4-5). Main causes of increasing expenditure are: (1) area and population growth; (2) expansion of functions; and (3) intensification of services in education, health, and charities (p. 63).

The traditional line of reasoning that relates the level of expenditure to the main source of income, *i.e.,* the general property tax, is not applicable when this level bears a close relationship to a socially desirable end. Where rate limitation, debt limitation, and the pay-as-you-go plan exist, the underlying thought has been to encourage prudent and efficient management. When they succeed in curtailing worth-while services, however, they are no longer good regulatory devices.

The prospect apparent now is that continual grants of various kinds are necessary if the standards of service shall continue on their present level. This practice would place our municipalities more on a plane with European cities where substantial grants from the national government are the rule. A good financial plan will fail to be successful unless there is a sincere desire to promote efficiency and economy through a sound budgetary process. A flexible budget which allows some administrative discretion in the transfer of funds is thought to be superior to the lump-sum and the detailed budgets.

Long absent from recent books on public finance is the "single-tax" idea, which the author considers worthy of examination in connection with an attempt to find new ways to meet the enlarging financial needs of municipalities.

The topic of assessment is ignored although it partially conditions the yield of the various tax levies. The unsatisfactory result of poor assessment is noted (p. 98), but dismissed without further comment.

ROYAL JAY BRIGGS

NEWCOMER, M. *You are a taxpayer.* (Poughkeepsie: Vassar Coll. 1939. Pp. 37. 60c.)

STRAYER, P. J. *The taxation of small incomes: social, revenue, and administrative aspects.* (New York: Ronald. 1939. Pp. viii, 210. $3.)

The fruitfulness of research in taxation by economists is apparent in this interesting monograph on the problem of taxing small incomes. With American governments in urgent need of more tax revenues and the frequent advocacy of a broader income-tax base, while the nation has been suffering from a prolonged depression and millions of families have very low incomes, the possible taxation of low incomes becomes of more social as well as fiscal significance.

The author presents a strong case for the exemption of incomes below the subsistence level from income taxation but contends that direct income taxes upon the moderate incomes are preferable to excises and other indirect taxes because the income tax is more equitable and will promote better citizenship by securing a greater consciousness of taxation and a better understanding of the relation of government spending to taxation. Professor Strayer joins earlier

writers not only in advocating the exemption of a minimum of subsistence but also in urging effective progression throughout the tax system by a gradual process which would place more reliance upon the personal income tax. It may be placed advantageously upon moderate incomes, as long as the level of subsistence income is not taxed, and produce $200,000,000 or more revenues for the federal government.

The difficulties involved in an effort to define subsistence income are frankly admitted, but they need not preclude the exemption of a minimum which would lend itself to convenient measurement by selecting an arbitrary, if necessary, but reasonable, minimum income. The fiscal advantages and disadvantages of the proposal are freely admitted, and it is conceded that a broadening of the personal income-tax base might increase the instability of the tax collections. A larger use of progressive personal income taxation is proposed primarily as a revenue reform which will heighten public revenues and apportion their burdens more equitably, but the tax system would also be employed to lessen the evil effects of the extreme poverty at the bottom of the income scale.

ALFRED G. BUEHLER

SULLIVAN, J. *The reform of the rating system.* Res. ser. no. 47. (London: Fabian Society. 1939. Pp. 30. 6d.)

THOMAS, P. J. *The growth of federal finance in India: being a survey of India's public finances from 1833 to 1939.* (Bombay and New York: Oxford Univ. Press. 1939. Pp. xi, 558. $7.75.)

WALK, E. G. *Loans of federal agencies and their relationship to the capital market.* A dissertation. (Philadelphia: Univ. of Pennsylvania. 1939. Pp. 256.)

WINSLOW, C. M. and CLARK, K. R. *Profit sharing and pension plans: their creation and tax effect.* (Chicago: Commerce Clearing House. 1939. Pp. 205. $2.)

WITHERS, W. *Financing economic security in the United States.* (New York: Columbia Univ. Press. 1939. Pp. x, 210. $2.75.)

Assessment principles: final report of the Committee on Principles of Assessment Practice. Rev. ed. (Chicago: Nat. Assoc. of Assessing Officers. 1939. Pp. 106. 75c.)

Assessment of real property in Kentucky counties: comparison of constitutional assessments and actual county assessments. Spec. rep. no. 3. (Frankfort: Kentucky Dept. of Revenue. 1939. Pp. 69.)

Exemption and preferential taxation of factories. Bull. no. 24. (Chicago: Nat. Assoc. of Assessing Officers. 1939. Pp. 13. 50c.)

Exemption and preferential taxation of homesteads. Bull. no. 20. (Chicago: Nat. Assoc. of Assessing Officers. 1939. Pp. 15. 50c.)

Internal revenue code: an exact reprint of the internal revenue code as amended by the Revenue act of 1939. (New York: Prentice-Hall. 1939. Pp. 764. $2.50.)

Internal revenue code, 1939. (Washington: Treasury Dept. 1939. Pp. 504, ccxxxix. $1.75.)

The tax law as it relates to the assessment and taxation of real property (Articles 1-8). Vol. xxiv, no. 5. (Albany: N. Y. State Tax Bull. 1939. Pp. 129.)

The tax law as it relates to the duties of assessors in assessment of real property for taxation (Articles 1-2). Vol. xxiv, no. 6. (Albany: N. Y. State Tax Bull. 1939. Pp. 35.)

The village law relative to assessment of real property, collection of taxes thereon, and sale of land or liens for unpaid taxes (applicable to villages operating un-

der the general village law) (Article 5—finances). Vol. xxiv, no. 8. (Albany: N. Y. State Tax Bull. 1939. Pp. 44.)

Personal income tax law of New York (Article 16 of the tax law) and tax on unincorporated businesses (Article 16A of the tax law) with 1939 amendments. Manual 39-A. (Albany: N. Y. State Income Tax Bur. 1939. Pp. 54.)

Prentice-Hall tax diary and manual for business, 1940. (New York: Prentice-Hall. 1939. Pp. 1044. $6.)

Property taxation of intangibles. Bull. no. 21. (Chicago: Nat. Assoc. of Assessing Officers. 1939. Pp. 13. 50c.)

Retailers' manual of taxes and regulations. 1939 ed. (New York: Inst. of Distribution. 1939. $5.)

Revenue revision: hearings, 76th Cong., 1st sess., relating to revenue revision, 1939. (Washington: House Ways and Means Committee. 1939. Pp. 284. 25c.)

Statistics of income for 1937, preliminary report of corporation income and excess-profits tax returns filed through Dec. 31, 1938. (Washington: U. S. Bur. of Internal Revenue. 1939. Pp. 18. 5c.)

War-time finance: its effects upon national stability. (Manchester: Fed. of Master Cotton Spinners' Assoc. 1939. Pp. 32.)

Population and Migration

The Economics of a Declining Population. By W. B. REDDAWAY. (New York: Macmillan. 1939. Pp. 270. $2.50.)

This is not a volume on population, but rather an exercise in theory as to the economic effects of changes in the size and age-composition of the population of England and Wales. The author is a Fellow at Clare College, Cambridge. He bases his treatment on the estimates of Dr. Enid Charles (in Lancelot Hogben, ed., *Political Arithmetic,* George Allen and Unwin, 1938) that "unless unforeseen social agencies intervene to raise fertility," the total population of England and Wales will decline from around 40 million in 1935 to about 20 million (estimate "a") or even as low as 5 million (estimate "b") in 2035. The first estimate is based on the assumption that fertility and mortality rates will remain the same as in 1933, the second that both rates will continue to decline in much the same way as they have done in the past. However, he deals mainly with the near future in which the population will decline only slightly, and refuses to analyze "the nightmare conditions which would prevail in 2035 if Dr. Charles's second estimate were fulfilled" on the grounds that "society simply must prevent their existence."

Population prediction is a hazardous occupation, and a common error is to assume that a present rate will remain unchanged. The significant facts of the present situation are the declining rate of increase of the total population (a natural and inevitable phenomenon under certain conditions) and an aging, both absolute and proportionate, of the population, owing to the increased expectation of life as a result of the advance of medicine and public health and the declining birth rate made possible by contra-

ception. The population pyramid is losing its broad base. In the United States (1930) there are fewer children under 5 than between 5 and 10 years of age. In England and Wales (1931), there are fewer children in the 0-5 and 5-10 age groupings than in that of 10-15 years. American population students are predicting a stationary population in the not-distant future. Dr. Charles is more pessimistic (and rash) in estimating an actual and catastrophic decline for England and Wales.

I am not competent to criticize Mr. Reddaway's economic theorizing. So far as I am concerned there are so many variables and so many unknowns that the procedure rapidly loses all contact with reality. Be that as it may, he regards the economic outlook for the near future (considering mainly employment, national income, public finance, and international trade), as at least potentially favorable. There are, however, two overriding provisos: that (1) general unemployment and (2) war can be avoided. It is probably unfair to quote him (that is the risk all prophets run), but on page 198 he states (the preface is dated March, 1939): "Indeed, a major war would simply make our whole discussion of public finance (if not the whole of this book) virtually irrelevant." Nevertheless, much that he says regarding such matters as the aging of the population is practical and pertinent.

MAURICE R. DAVIE

Yale University

NEW BOOKS

FAIRCHILD, H. P. *People: the quantity and quality of population.* (New York: Holt. 1939. Pp. 315. $2.25.)

VON FRANGEŠ, O. *Die Bevölkerungsdichte als Triebkraft der Wirtschaftspolitik der südosteuropäischen Bauernstaaten.* (Jena: Fischer. 1939. Pp. 32.)

THOMPSON, E. T., editor. *Race relations and the race problem: a definition and an analysis.* (Durham: Duke Univ. Press. 1939. Pp. xv, 338. $3.50.)

This group of essays attempts to set the race problem of the United States, especially the negro problem, in a broad setting of theory of race relationships and an analysis of conditions affecting struggles of races for land and status. No new material is presented; but the focussing of interpretation upon the single racial situation with side glances at the Oriental in the Western States gives peculiar potency to contributions of the authors.

The theoretical bases of the discussion are set forth in the consideration by R. E. Park of "The nature of race relations." Statistical material about the racial balance of births and deaths is analyzed by S. J. Holmes. The foundations of traditional race relationships in the South are found in the plantation which seems to be synonymous with the system of chattel slavery. The two castes in the South coterminated by race and classes within those castes, primarily the mulatto, is the theme of two essays. Racial conflict and competition furnish material for four discussions.

Two characteristics the essays have in common: each is quite readable and each aids in achieving the purpose of the volume "to organize a discussion of

race relations with special reference to the South in such a way as to throw emphasis upon the relations rather than upon a particular race" (p. ix). The book should be of value to any reader who is interested in getting within the scope of one volume a survey of the "race problem" in its sociological and economic setting within the United States.

RUTH A. ALLEN

VINCI, F. *Problemi demografici.* (Bologna: Zanichelli. 1939. Pp. vi, 228. L. 20.)

WHELPTON, P. K. *Needed population research.* (Lancaster: Science Press. 1938. Pp. xv, 196. $1.)

With the aid of the Milbank Memorial Fund and the Scripps Foundation for Research in Population Problems and under the auspices of the Population Association of America, the author has given a brief sketch of some branches of population research with the emphasis upon research which should next be undertaken. Such an analysis is valuable as it will indicate to those working or about to work in the rapidly growing field of population research the particular problems which may best be attacked now to round out and develop our knowledge. In the summary the author cites the three problems which seem to him outstanding: motives leading couples to want a given number of children; comparison of present with optimum distribution of population; changes arising in the hereditary make-up of the population. It would have been helpful if the author had cut each of these into a large number of specific suggestions for research of about the scope of a good Ph.D. thesis instead of leaving the reader to pick them up from the general body of the text.

EDWIN B. WILSON

WINSEMIUS, A. *Economische aspecten der internationale migratie.* Pub. no. 29. (Haarlem: Netherlands Econ. Inst. 1939. Pp. xvi, 155.)

In this book the author, as stated in the preface, attempts to build up a theory of international migration. He regards migration as comparable with the international movements of capital and of goods. His study of the long- and short-run economic tendencies of these various movements leads him to believe that free migration is an important means of permitting nations to profit collectively from the earth's resources.

The author holds that political development has not kept pace with economic development and that, particularly after the World War, free migration, free international exchange of goods, and free capital movement have tended to disappear, thereby intensifying the unequal distribution of the world's population, capital and natural resources. His solution is an international political organization to regulate and encourage international intercourse in the interest of all peoples.

At the end of the book we find a bibliography, a short summary in English, and a list of the publications of the Netherlands Economic Institute.

R. S. SABY

WITTKE, C. *We who built America: the saga of the immigrant.* (New York: Prentice-Hall. 1939. Pp. 565. $5, textbook ed., $3.75.)

Aperçu de la démographie des divers pays du monde, 1929-1936. (La Haye: Inst. Internat. de Stat. 1939. Pp. 433. Fl. 8.)

This comprehensive survey of demographic statistics assembles in convenient form the more important official data available. Included are population composition by age, sex, nationality, race, religion, and marital status; birth rates, death rates, fecundity rates, rates of natural increase, and net reproduction rates; trends in marriage, divorce, stillbirths, and illegitimate births; births according to month of the year and age of the mother; life expectancy tables and classification of principal causes of death. In some cases data for specific countries are broken down into provinces or geographic subdivisions; in the case of the United States, figures for the country as a whole are frequently supplemented by those for the states of New York, Illinois, Ohio, and Pennsylvania. A notable omission is that of rural-urban composition. The usefulness of the volume would be increased by showing more of the data in percentage form.

CARROLL D. CLARK

Urban population in the United States from the first census (1790) to the fifteenth census (1930). (Washington: U. S. Bur. of the Census. 1939. Pp. 11.)

Social Problems and Reforms

Who Gets the Money? A Study in the Economics of Scarcity and Plenty. By WALTER RAUTENSTRAUCH. Rev. ed. (New York: Harper. 1939. Pp. xiii, 122. $1.50.)

The present work is a revision of another published in 1934 having the same title. The revamping has, unfortunately, eliminated none of the cardinal fallacies mentioned by the present writer in his discussion of the book in the *American Economic Review* of March, 1935.

As in the earlier edition, the antiquated doctrine that only manual workers in such industries as manufacturing, construction, mining, and agriculture are true producers, forms the basis of much of the argument. The rewards of persons engaged in domestic service, trade, banking and finance, government, health work, teaching, and the practice of law are held to constitute an "overhead," the expense of carrying which is overburdening the "productive" members of society. All interest, dividends, rents, royalties, and entrepreneurial rewards are likewise counted as part of this "overhead."

Dr. Rautenstrauch still appears to be worried by the fact that, with increasing income, the American family demands more luxuries and entertainment rather than more bread and shoes. He seems also to believe that in the wages of this "producing" class we find the only significant source of that purchasing power which makes the wheels of industry revolve. A large part of the income of the "non-productive" members of society is tacitly assumed to be hoarded.

The book would be improved by greater consistency in definitions and use of terms. For example, despite the fact that chapter 2 begins by stating

that precise definitions are essential to clear thinking, we find such conflicts as the following: On one page, "capital" is defined as "things we have made which are usable for the making of other things," but on the next page, "capital income" is stated to be "that income which is paid for the use of capital whether that capital exists in the form of money, credit, machinery, buildings, grounds, patents, or other rights." Evidently the kind of *capital* from which *capital income* is derived is entirely different from the kind of "capital" defined in the earlier paragraph.

In chapter 5, Dr. Rautenstrauch presents figures indicating that, in such fields of industry as manufacturing, electric light and power, construction, mining, and railway transportation, the share of labor in the total value product has been progressively and sharply curtailed during the past twenty years, with the result that ability to buy and consume the products of industry has diminished to such an extent as to reduce greatly industrial activity. It appears, however, that the author has been misled by choosing 1919, a decidedly non-typical year, as a base for his index numbers. Dr. Robert F. Martin of the National Industrial Conference Board has computed for the years 1899 to 1937 inclusive the percentage distribution of the realized income derived from various industries. The following decennial averages compiled from his book, *National Income in the United States, 1799-1938,* show that the share of wages and salaries in the realized national income has shown no general tendency to shrink.

	Manufacturing	*Construction*	*Electric light and power*	*Mining and quarrying*	*Transportation*
1899-1908	81.2	81.3	58.0	74.5	66.7
1928-1937	81.9	81.8	39.7	71.6	74.6

Only in the case of the electric light and power industry has there been any marked decline in the proportionate share going to the employees. A slight fall in the percentage for mining and quarrying has been much more than offset by the sharp rise in the case of transportation. Furthermore, the author completely fails to show that a dollar of wages or salaries constitutes any more buying power than does a dollar of dividends or interest.

Dr. Rautenstrauch also presents charts indicating that income is becoming more and more concentrated in the hands of the favored few. How the data appearing to prove this contention have been derived is not explained. Since careful studies by other investigators indicate no marked change in the relative distribution of income, this oversight is unfortunate.

The final conclusion of the book is that the only feasible way of putting the unemployed back to work and making our nation's productive machinery operate effectively is to establish a socialistic state.

WILLFORD I. KING

New York University

NEW BOOKS

ARONOVICI, C. *Housing the masses.* (New York: Wiley. 1939. Pp. xv, 291. $3.50.)

Years of experience in teaching both housing and community planning have not only equipped Dr. Aronovici with the ability to evade grappling with solely the immediate objectives involved but they have also fortified him with the ability to expound the long-range aspects of housing.

Dr. Aronovici deprecates the tendency on the part of many persons to depend too much on the experience of other countries in planning programs looking to betterments of American housing conditions. The volume is by no means a case study. It is one, however, which might well be assimilated by diagnosticians of housing problems as a preventive against observations too narrowly clinical. Unfortunately it is too often overlooked that factors which have been causative agents in the housing problem do antedate by generations existing structures and conditions upon which attention is focussed. Land, population, money, earning power, traditions of law, of architecture are some of these factors. Pointedly handled as they are by Aronovici in their relation to present-day situations they have given to the book a definite quality of solidity. This quality is borne out also by the chapter on "Housing literature" which is a distinct departure from the customary assembly of bare references. The unusual illustrations are especially deserving of commendation.

A. R. HASSE

BOGARDUS, E. S. *The development of social thought.* (New York: Longmans Green. 1940. Pp. viii, 564. $3.50.)

BOODIN, J. E. *The social mind: foundations of social philosophy.* (New York: Macmillan. 1939. Pp. 604. $3.50.)

BORSODI, R. *Prosperity and security: a study in realistic economics.* (New York: Harper. 1938. Pp. ix, 319. $3.)

It has long been a fashionable pastime to caricature economic theorists as scholastics, prattling away in happy ignorance of actual economic behavior. Mr. Borsodi launches still another assault on these battered veterans. While there are incidental references to the problems of security and prosperity, the book is primarily a critique of economics and an attempt to turn the errant science into more fruitful paths.

The critical part of the book contains a number of accurate and suggestive observations. It must be admitted that economics has been concerned with the factory system to the neglect of small-scale and household production. It is also true that economists have tended to confuse production and acquisition, and have often under-estimated the importance of force and fraud in economic affairs.

While Mr. Borsodi wins these skirmishes with relative ease, his campaign as a whole is unsuccessful. His criticism of economics centers on its abstract character (the words "abstract" and "abstraction" occur seven times in one sentence on page 65). He fails to realize that this is a necessary characteristic of any science, and that the type of economics which he advocates would be at least as abstract as the doctrines which he denounces. Indeed, when he begins to erect his own economic principles, the author proliferates abstractions with the fertility of a medieval theologian. "The law of authority," "the law of personality," "the principle of justice," "the principle of obligation" and the

rest are at least as abstract as the principle of marginal productivity, and much less capable of inductive verification.

Intermingled with Mr. Borsodi's theoretical structure is an implicit program of social reform, which may be summarized as a flight from bigness. He believes that the efficiency of large-scale production has been greatly overestimated, and that two-thirds of all consumer goods could be produced more efficiently in the home. In support of this amazing statement, Mr. Borsodi contends that he can grind flour in an electrically-driven mill more cheaply than it can be purchased at retail. His calculations, however, appear to assume a much higher rate of plant utilization than could be obtained by a single family, while the time spent in supervising the process is considered to be worth nothing at all.

The operations of "big business" are denounced throughout the volume as essentially predatory. There is equally little sympathy for the economic activities of government. The intricate social security program is dismissed in a scornful paragraph as merely a means of supporting "armies of clerks and bureaucrats." The author fails to tell us, however, what we should put in the place of these undesirable institutions. He seems to have in mind a utopian society of self-sufficient family units. In such a society, of course, there would be no market for Mr. Borsodi's books, which might make it difficult for him to buy electric current for his flour mill.

LLOYD G. REYNOLDS

CREEDY, F. *Human nature writ large: a social psychologic survey and western anthropology.* (Chapel Hill: Univ. of North Carolina Press. 1939. Pp. ii, 484. $3.)

DEGEN, M. L. *The history of the woman's peace party.* Stud. in hist. and pol. sci., ser. lvii, no. 3. (Baltimore: Johns Hopkins Press. 1939. Pp. 266.)

EGGLESTON, F. W., and others. *Australian standards of living.* (Melbourne: Univ. Press (Oxford Univ. Press). 1939. Pp. 193. 10s.)

ELMER, M. C. *Social research.* (New York: Prentice-Hall. 1939. Pp. xvi, 522. $3.)

The author is concerned with the inadequacy of much of the research conducted in the social sciences, and with the disrepute these shortcomings have tended to create for social research in general. The book begins with a detailed definition and analysis of the subject, with emphasis on the need for raising the standards of social research to the level now generally applied to material research, and for employing those principles which distinguish true research from unorganized investigation or the collection of data merely to prove some point which it is to the investigator's interest to establish.

With these introductory warnings, the book proceeds to describe the many important possibilities of social research as a necessary base for developing a better society and avoiding some of the social conflicts which result from current lack of knowledge. For the main part of the book the author draws on his own wide experience, as well as that of many others, to describe the special problems which arise in different types of social research, discusses the principles by which various kinds of studies should be guided, and explains many of the techniques which have been used successfully in a wide variety of social studies.

The book is well documented with references to other writings on the sub-

ject, and the author has made a substantial contribution to a better understanding of the principles, the philosophy, and the technology necessary to productive research in the social field.

JOHN A. BROWNELL

FISHER, A. G. B. *Economic self-sufficiency.* Pamph. on world affairs, no. 4. (New York: Farrar and Rinehart. 1939. Pp. 32. 15c.)

FRANCIS, B. H. and FERGUSON, D. G. *What will social security mean to you?* (Cambridge: Am. Inst. for Econ. Res. 1939. $1.)

GIDEONSE, H. D. *Organized scarcity and public policy: monopoly and its implications.* Pub. policy pamph. no. 30. (Chicago: Univ. of Chicago Press. 1939. Pp. iv, 53. 25c.)

HAGOOD, M. J. *Mothers of the South: portraiture of the white tenant farm woman.* (Chapel Hill: Univ. of North Carolina Press. 1939. Pp. vii, 252. $2.)

HAZARD, J. N. *Soviet housing law.* (New Haven: Yale Univ. Press. 1939. Pp. 182. $2.50.)

HOLLIS, F. *Social case work in practice: six case studies.* (New York: Family Welfare Assoc. 1939. Pp. 323. $2.50.)

HOYT, H. *The structure and growth of residential neighborhoods in American cities.* (Washington: Fed. Housing Admin. 1939. Pp. vi, 178. $1.50.)

KNOTT, W. D. *The influence of tax-leeway on educational adaptability: a study of the relationship of residual or potential economic ability, expressed as tax-leeway, to educational adaptations in the state of New York:* Contribs. to educ. no. 785. (New York: Bur. of Pubs., Teachers Coll., Columbia Univ. 1939. Pp. x, 84. $1.60.)

LINDSTROM, D. E. *The church in rural life.* (Champaign, Ill.: Garrard Press. 1939. Pp. xiv, 145. 85c.)

LÜTGE, F. *Wohnungswirtschaft: eine systematische Darstellung unter besonderer Berücksichtigung der deutschen Wohnungswirtschaft.* (Jena: Fischer. 1940. Pp. xvi, 312. RM. 16.50.)

PANUNZIO, C. M. *Major social institutions: an introduction.* (New York: Macmillan. 1939. Pp. 631. $3.50.)

ROSEN, J. *Das Existenzminimum in Deutschland: Untersuchungen über die Untergrenze der Lebenshaltung.* (Zürich: Oprecht. 1939. Pp. 90.)

This volume reports an investigation of the standard of living among the unemployed in Berlin, based upon the returns of a questionnaire during the summer of 1933. Probably it is the first statistical study of the living conditions of German households with lower incomes. The questionnaire registers the accounts of a week. The households studied are divided into five groups: those with children, those without children, those composed of single persons, those with incidental income, and those without incidental income. The total membership of the 89 households is 258.

The incomes of the unemployed are fundamentally different from those of the employed. Wages, incidental earnings, money assistance and natural produce are the forms of income from private sources. Support, money aid and natural produce are the forms of income from public sources. The households received almost 30 per cent of their income from private sources; whereas some 70 per cent came from public sources.

General observation and the study show from year to year an increased worsening of the condition of both employers and unemployed. The process of pauperization for the family of the unemployed consists essentially in the

decline of the possibility of drawing income from wage work; hence the increase in the income from public sources. Comparison of the statistics of various forms of income from the two major sources for the years 1932 and 1933, clearly indicates the decline of the proportion of income from private labor. Households with children had the greater chance of maintaining the incomes assured from private enterprise. This may be due to the political measures of the existing regime. The level of income for the households of single persons sank the most. Formerly the obverse was the case.

The average income of all households was so low as to make it difficult for them to carry on without a measure of indebtedness. It is a remarkable fact that a large number of the households are debt free, largely because of the impossibility of repaying the loans. The indebtedness of 1933 among the unemployed is greater than that of the previous year, the highest being in households with incidental incomes.

Relatively, the worse the general economic situation of a particular household category, the larger is the amount of milk consumed. Butter, more of a luxury, shows the obverse tendency. Fats play an important rôle. The more favorable the financial situation of a household, the less important is the rôle of fats. The converse picture is again shown by the different kinds of meats. The poorer the group of households, the greater are the expenditures for bread over those for meat. Very much the same holds true in the consumption of potatoes. Households without incidental incomes show the lowest percentage of sugar consumption. For coffee, tea and cocoa a parallelism between unfavorable situation and decrease of consumption is demonstrable. The average household is able to spend only 11.39 RM. for food per week.

The uniform foods in the households studied are milk, animal and plant fats, meat, bread and potatoes, comprising 65 per cent of the budget. Margarine plays an important rôle in the household of the unemployed. Of all the various meats, sausage is the main item. A small percentage of horsemeat is consumed. The better situated the household is, the lower is the consumption of inferior meat.

While on the average 30 per cent of the income for the unemployed is paid out for rent, almost half of the income is paid for rent among the most unfavorable conditions. From the most meager income the amount for rent must first be set aside; hence for everything outside of shelter and food but little is left for insurance, newspapers, contributions, radio, books, clothing, health, transportation, gifts, fees and simple pleasures.

The major factors in the development of the standard of living from 1927 to 1933 are: The food index fell from 152 to 110. The nominal amount for wages and public support fell even more. There has been a continuous lowering of income among the workers and the unemployed families. There was a general shrinkage in national income which is reflected in the lowering of expenditure for social-political purposes. There took place a noticeable lowering of incomes throughout the social structure. The bulk of all employed worked for a wage which gradually declined so low that it predominantly remained below the limit of 100 RM. per month free from taxation.

HERMAN HAUSHEER

SMITH, A. H. *Your personal economics: an introduction to consumer problems.* (New York: McGraw-Hill. 1940. Pp. 664. $1.96.)

TEAD, O. *New adventures in democracy: practical applications of the democratic idea.* (New York: McGraw-Hill. 1939. Pp. xi, 229. $2.)

VERNON, H. M. *Health in relation to occupation.* (New York: Oxford. 1939. Pp. 363. $4.50.)

WICKENS, D. L. *Differentials in housing costs.* Bull. 75. (New York: Nat. Bur. of Econ. Res. 1939. Pp. 15. 25c.)

Mr. Wickens relates measured regional differentials in housing costs, as opposed to local differentials, to the basic requirements underlying exploration in housing problems. Thus, section 1 of the bulletin emphasizes differentials according to geographic regions and according to density of population. Section 2 describes other differentials and considers the influence of the more important factors which aid in their explanation and interpretation. Included in the factors are differences arising from the age distribution of existing houses, differences in land costs, in materials used and facilities offered, etc.

Inasmuch as the quantitative measures employed in the bulletin are primarily in terms of housing existing in 1930, the year of the latest census, Mr. Wickens anticipates questions as to the adequacy of description of housing costs measured by costs of existing housing alone and also whether the differentials revealed for 1930 are indicative of current differentials. Evidence is produced which would make it seem likely that differentials prevailing in 1930 still hold in the main.

A. R. HASSE

Consumer expenditures in the United States: estimates for 1935-36. (Washington: Nat. Resources Committee. 1939. Pp. ix, 195. 50c.)

Coöperative marketing of dairy products. Circ. C-116. (Washington: Farm Credit Admin., Coöp. Res. and Serv. Div. 1939. Pp. 47. 10c.)

Family income and expenditures, plains and mountain region. Part 1. *Family income.* Misc. pub. 345. (Washington: U. S. Dept. of Agric. 1939. Pp. 330. 30c.)

Urban and rural housing. (Geneva: League of Nations. New York: Columbia Univ. Press. 1939. Pp. xxxvi, 159. 80c.)

Insurance and Pensions

Old-Age Security: Social and Financial Trends. By MARGARET GRANT. Report prepared for the Committee on Social Security. (Washington: Committee on Social Security, Social Sci. Res. Council. 1939. Pp. xiii, 261. $2.50.)

This is a study of the financial and related aspects of the contributory old-age insurance systems of Germany, Great Britain, Czechoslovakia, and Sweden and of the non-contributory old-age pension systems of Denmark, Great Britain, New Zealand, and Australia. All of these countries except the last two were visited by Miss Grant and these two by Professor Robert Murray Haig, who turned over to Miss Grant information on old-age security collected in a fiscal problems study. Barring certain points subsequently discussed, the treatment is exceptionally well done and unusually accurate.

The greatest amount of attention is devoted to such aspects of the old-age security system of these countries as coverage, contribution and benefit rates, eligibility for benefits, income, expenditures and reserves, trends of population and costs. Upon all of these subjects, this book enriches the information heretofore available. Relying mainly upon official reports, Miss Grant presents most of the data she gathered in a series of original and interesting tables, which bring the story down to 1937-1938.

This study was undertaken "to throw light upon parallel problems in the United States." A preliminary, summarized version was published nearly two years ago, as the "Factual Report" included in *More Security for Old Age,* the report of the Committee on Old Age Security of the Twentieth Century Fund, which was widely quoted in the discussions which preceded the recent revision of the American old-age insurance system. This Factual Report was criticized by the reviewer as a presentation of only such aspects of the foreign experience which supported the recommendations of the Committee.

The present study is much less of a one-sided presentation but still suffers, to some extent, from the fact that it is oriented toward American controversies. The least satisfactory part of the study is the concluding chapter on "Foreign experience and American problems." It is apparent that the author has not studied the American system with anywhere near the thoroughness with which she studied the foreign systems. She repeats as statements of fact the claims of the critics of the original American act—for instance, with reference to the alleged 47 billion dollar reserve—in ignorance of the fact that these criticisms were based not upon the provisions of our law but upon assumptions which experience has proven to have been erroneous. Similarly, she uncritically accepts the interpretation of the recent amendments advanced by the same group of partisans.

The six chapters preceding the argumentative final chapter, which recount the foreign experience, also, suffer somewhat from the orientation to American controversies. There is no twisting of the facts to support the author's thesis, nor the complete ignoring of developments which run counter to her position, but aspects which do not interest her receive scant attention. It is possible, for example, to piece together scattered items in this book which clearly establish that old-age pensions in foreign countries are much smaller than in the United States, both in purchasing power and relative to average earnings. It can also be discovered that no foreign country has ever launched or revised an old-age insurance system without calculating the costs at least a generation ahead and having a definite plan for meeting the costs. But these and similar facts, which have very material bearing upon the financing of old-age insurance, are likely to be missed by the reader, because they are subordinated to other aspects which, standing

alone, can be cited as supporting the plan of "look ahead only five years" which has now been incorporated in the American law.

EDWIN E. WITTE

University of Wisconsin

NEW BOOKS

BAKER, H. *Social security: selected list of references on unemployment, old age and survivors', and health insurance.* Rev. ed. (Princeton: Princeton Univ. Ind. Rel. Section. 1939. Pp. 28.)

DICKINSON, F. G. *Insurance looks at the 1940's.* Address at 60th anniversary banquet of Western Underwriters Assoc. (Chicago: Western Underwriters Assoc. 1939. Pp. 22.)

There are four important prophecies which the author considers the most characteristic. First of all, the growth of population in the United States will be negligible. However, inside the almost stationary population "practically two-thirds of the odd million increase in the next four decades will be in the retired group." The nation will become more age-conscious and still less class-conscious. A second trend of importance to insurance will be that American wealth will increase in homes, be less in factories, and school buildings will be converted into homes for the old. I completely agree with these two arguments, but I doubt whether the third will be realized—namely, "that the average level of business activity in the coming decade will be about half-way between the two levels of the 1930's and the high levels of the 1920's." It is to be assumed that this sentence was written before the new world war had started. At least, the author believes that government control "has reached or passed its peak." However, he is rather careful in regard to the future trend as to federal control instead of dealing with 49 state insurance departments.

ALFRED MANES

EMMERSON, H. C. and LASCELLES, E. C. P. *Guide to the Unemployment Insurance acts.* (London: Longmans Green. 6s.)

FORD, P. *Incomes, means tests and personal responsibility.* (London: P. S. King. 1939. Pp. ix, 86. 5s.)

In this study Mr. Ford, a professor of economics at University College, Southampton, considers briefly several important problems connected with social insurance in England. His findings should likewise prove valuable to social security administrators in this country.

Since the competitive system, he writes, depends to some degree upon insecurity "to stimulate the worker to find a new and better market for his labour and to induce in him habits of foresight and thrift" (p. 2), the state must seek to combine individualism with collective aid. Such a task involves all of the difficulties of combining any two opposed principles. If the state pays the worker excessive relief, necessary stimulation to independent labor is partially eliminated. If the relief payment is small, the worker and his family may suffer or others not morally or legally responsible may be called upon to augment the inadequate collective aid.

Professor Ford proceeds to examine the theoretical and administrative problems of the means test which is society's method for supplying aid without discouraging initiative. He throws new light on the subject by a statistical

analysis of the extent of family responsibility and of the persons upon whom the responsibility actually falls. Such a study, he says, cannot "settle the problem of means tests," but does provide "a numerical basis to which all our arguments must have reference" (p. 25).

"Adequate payments and strict enquiry are the two principles on which relief must rest" (p. 71), concludes the author. The "strict enquiry," however, must be based on sound principles rather than on family liability regulations some of which go back to 1600. Consistency should also be attempted as between local and national regulations and as between regulations of different administrative bodies. Professor Ford offers his statistical study as a basis of facts for those who would make means tests more scientific.

FRANK T. DE VYVER

FRANCIS, B. H. *What will social security mean to you?* (Cambridge: Am. Inst. for Econ. Res. 1939. Pp. 85. $1.)

HOBBES, C. W. *Workmen's compensation insurance, including employers' liability insurance.* 2nd ed. (New York: McGraw-Hill. 1939. Pp. xviii, 707. $5.)

KINGSBURY, J. A. *Health in handcuffs.* (New York: Modern Age Books. 1939. Pp. ix, 210. 75c.)

This book by the former secretary of the Millbank Memorial Fund is a popular, non-technical review of the argument for health insurance and a national health program. It includes a compact historical review of the controversy over health insurance, and covers most of the recent surveys and the more important activities of the federal government (legislative, executive, and judicial) in the field of medical economics and public health. There is a wealth of factual material culled from many sources, as well as a selected list of references.

HOWARD M. TEAF, JR.

LESTER, R. A. and KIDD, C. V. *The case against experience rating in unemployment compensation.* Ind. rel. monog. no. 2. (New York: Ind. Rel. Counselors. 1939. Pp. 60. $1.)

This attack on what has been defined as "the American contribution to the theory of unemployment insurance" is a companion document to *The Case for Experience Rating in Unemployment Compensation and a Proposed Method,* by Herman Feldman and Donald M. Smith. To this reviewer Messrs. Lester and Kidd seem to have made the better case. In spite of poor organization the major points in their argument are clear: The purposes ascribed to experience rating are inconsistent with each other when practical methods are devised for effecting them. Theoretically, it might be possible to reward stability of employment *or* to distribute precisely the social costs of unemployment in proportion to responsibility, by appropriate arrangements; but both ends cannot be accomplished by the same methods, and one must be pursued at the expense of the other. Practically, the authors do not believe any scheme can be devised to accomplish these inconsistent aims for all industry. They challenge the theory that benefits paid are a sound measure of the amount of unemployment an employer has "caused," and that "employment stability" can be measured by number of lay-offs, and that methods of stabilization by one firm can be copied by all firms to accomplish a general stability within the whole system of business and industry. They deny that unemployment is "caused" by employers

and that reducing their taxes will give them incentive not to "cause" it, and take the much more realistic position that unemployment is a market phenomenon, a reflection of the general rate of spending for which society as a whole is responsible.

Even if such stabilization and allocation of responsibility were definable and possible of achievement, would the result be desirable when realized? "With 10,000,000 unemployed and the labor supply increasing at half million a year," ask the authors, "is not stabilization of employment absurd except in terms of expansion rather than a stagnant stability of employment?" May not experience rating even discourage employers from taking risks which might lead to expansion? May not stabilization of employment and unemployment at present levels and a long-time concentration of unemployment upon certain groups have far more serious social consequences than the instability represented by high turnover rates?

The authors have marshalled effectively most of the arguments ever presented against experience rating, and have added some of their own. Since the issue has been raised and pressed by a number of firms which have been able to stabilize employment, it is well to have attention called to the difference between economies for individual firms and the economics of an industrial system.

E. Wight Bakke

Winslow, C. M. and Clark, K. R. *Profit sharing and pension plans: their creation and tax effect.* (Chicago: Commerce Clearing House. 1939. Pp. xiii, 192. $2.)

Brief reading lists on the Social Security act, including references on the amendments of 1939. (Washington: Federal Security Agency, Social Security Board. 1939. Pp. 12. 5c.)

Compilation of the social security laws, including the Social Security act amendments of 1939 and other enactments of the 76th Congress, 1st Session. (Washington: Federal Security Agency, Social Security Board. 1939. Pp. 92.)

Industrial Commission of Wisconsin: Workmen's Compensation act, with amendments to October 22, 1939. (Madison: Industrial Commission of Wisconsin. 1939. Pp. 122.)

Insuring through your farmers' mutual. Circ. E-15. (Washington: Farm Credit Admin. 1939. Pp. 12. 5c.)

Outline of employer's duties under the Social Security act and the Internal Revenue code as amended August, 1939. (Washington: Social Security Board and Bur. of Internal Revenue. 1939. Pp. 14.)

Progress of state insurance funds under workmen's compensation, a quarter century of American experience. Bull. 30. (Washington: Labor Standards Div. 1939. Pp. 42. 15c.)

Socialism and Coöperative Enterprises

NEW BOOKS

Burley, O. E. *The consumers' coöperative as a distributive agency.* (New York: McGraw-Hill. 1939. Pp. xiv, 338. $3.)

Professor Burley of Ohio State University has in this book undertaken the important task of appraising the work of American consumers' coöperatives in the distributive field. He has done an excellent job. Much of his material is

drawn from the experiences of Ohio societies although he shows a clear understanding of the national movement. This book will be of use to those who wish to introduce in their courses materials on consumers' coöperation which have not an undertone of uncritical approval.

The conclusions reached by the author are on the whole highly favorable to the coöperatives. He holds, however, that their future in America will be largely in fields "primarily composed of convenience and specialty goods which carry relatively high margins; that are somewhat inelastic in demand and require little merchandising." Considerable emphasis is placed upon the need for the movement to employ systematic and careful testing so that coöperative products will maintain high quality standards. He also asks for closer attention to personnel work.

Here and there, expressions of excessive confidence in the existing distributive system crop out in the book. "It is also true that the United States possesses the most efficient and extensive retail distributing system that the world has ever known" (pp. 288-289). Comparisons of this scope are most meager; hence refutation is difficult. Yet one may suggest after reading the recent Twentieth Century Fund report, *Does Distribution Cost Too Much?,* that our system is still far from efficient. We may have the most extensive distributive system; yet 59 per cent of the total product price seems more than a trifle excessive for the distributive function.

COLSTON E. WARNE

COLE, G. D. H. *A plan for democratic Britain.* (London: Odhams. 1939. Pp. 255. 3s. 6d.)

DICKINSON, H. D. *Economics of socialism.* (London and New York: Oxford Univ. Press. 1939. Pp. x, 262. $3.25.)

GITLOW, B. *I confess: the truth about American communism.* (New York: Dutton. 1940. Pp. viii, 611. $3.75.)

HIRSCH, M. *Democracy versus socialism: a critical examination of socialism as a remedy for social injustice and an exposition of the single tax doctrine.* 3rd ed. (New York: Henry George School of Social Science. 1939. Pp. xxx, 468. $2.)

LAMONT, C. *You might like socialism: a way of life for modern man.* (New York: Modern Age Books. 1939. Pp. x, 308. 95c.)

MCFADDEN, C. J. *The philosophy of communism.* (New York: Benziger Bros. 1939. Pp. xx, 345. $3.50.)

MICKLEM, N. *National socialism and Christianity.* Pamph. on world affairs no. 18. (New York: Farrar and Rinehart. 1939. Pp. 31. 15c.)

VARGA, E. *Two systems: socialist economy and capitalist economy.* Translated from the German by R. PAGE ARNOT. (New York: Internat. Pubs. 1939. Pp. 268. $2.50.)

Varga is regarded by many as one of the ablest communist writers. Formerly professor of economics at the University of Budapest, he at present resides in the Soviet Union.

The book, originally written in German and published in 1937, was translated into English in 1939. The author, to paraphrase Marx and Engels, disdains to conceal his views and aims. The table of contents, for instance, contains such headings as the following: "Chronic mass unemployment under capitalism; full employment of all labour forces in the Soviet Union"; "Tendencies of capitalist economy to decline; systematic construction of socialist

economy"; "Mass ruin of peasants under capitalism; their rise to material and cultural well-being in the Soviet Union," etc.

Each of these chapters attempts a statistical analysis of the subject under consideration first in the capitalist countries—where decay is shown to be rampant, and then in the Soviet Union—where rapid progress is shown to be dominating the scene.

The author's approach as well as the statistical methods employed by him in the chapter dealing with the accumulation of capital in capitalist countries and in the U.S.S.R. are fairly typical of those employed in other chapters. In this chapter a table is offered to show that the "national wealth of the United States (in milliard dollars)" expressed in 1910-14 prices was 184 in 1912; 324 in 1929; and 261 in 1932. Inasmuch as the difference between 261 (in the *depression* year!) and 184 is 77 (42 per cent), the author states that the "percentage yearly increase between 1912 and 1932" amounted to 2.1. He adds, however, that "we are under no illusion about the great defects of these calculations. But they agree very roughly with historical development." Since Colin Clark's (*National Income and Outlay*) figures show England's "new capital investments in percentage of the national income" to have been in 1907—12.2; in 1924—8.1; in 1929—7.2; and in 1935—6.9, and since in 1925 (in milliards of pre-war marks) England's national wealth stood at 304 and her national income at 55 (or 6.1), the author concludes that in England "the yearly rate of accumulation amounts to a mere one to two per cent." Here he adds that "even if these figures be ever so inexact, they show nevertheless the extraordinary slow rate of accumulation even in the richest countries of capitalism."

Turning next to the Soviet Union, the author in a table entitled "The basic industrial funds of national economy (in milliard rubles, *in 1933 prices*)" shows a steady rise of these funds from 46.5 in 1925 to 121.1 in 1936, or a yearly average increase of 14.5 per cent. The facts that in a country starting, so to speak, from scratch the percentage increase is bound to be rather impressive, and that in 1925 the U.S.S.R. barely emerged from hyper-inflation, and the volume of industrial production in that year was far below the 1913 level do not seem to disturb the author.

The style is clear and the book on the whole makes interesting reading. There is no index.

ARTHUR Z. ARNOLD

Statistics and Its Methods

Principles of the Mathematical Theory of Correlation. By A. A. TSCHUPROW. Translated by M. KANTOROWITSCH. (London: Hodge. 1939. Pp. x, 194. 12s. 6d.)

If I judge correctly, many statisticians will welcome the translation of this little volume which, in the original has been widely recognized since the middle of the last decade as an important contribution to the subject of correlation. More particularly because of its emphasis on the fundamental notions and assumptions of the theory of correlation rather than on its methods and techniques of measurement and application, the

volume should recommend itself to statisticians working with the data of the social sciences.

The "intention (of the volume) is to provide a logical foundation for the theory of correlation." And as the first step toward that fulfillment, the author reconciles the mathematical and non-mathematical methods of determining associations, showing that "the former appears to be the logical sequence and systematic clarification of the latter." Furthermore, in order to go beyond the simple fact of association, that is, measure its intensity, only those methods developed by modern mathematical theory of correlation are suitable.

In turn, however, the meaning and significance of the concept of intensity of association need to be clarified and supplied with a logical background. Economic statisticians are generally aware of the inadvisability of inferring a causal relationship wherever a high degree of formal association is found between two economic variables. This does not, however, deter them from employing correlation methods and attaching a certain significance to the degree of intensity of associations. And quite rightly. But the meaning of, and the justification for that "certain significance" is seldom made clear. In the second step toward constructing a logical foundation, the author presents adequate grounds for the foregoing practice—providing a justification for assigning significance to measures of intensity when the formal association is non-indissoluble, and a basis for understanding that significance.

As the third step, the author distinguishes between the logic of correlation theory underlying investigations of variables which have a definite functional relationship, and of variables which have some form of probability (stochastic) relation—a distinction which statisticians should, but do not always bear in mind. The need for such awareness is made clear by the author in his caution that statisticians should employ every discretion in the use of methods and in interpretations when dealing with stochastically related variables.

Following on the general background or *a priori* relations of correlation theory, and covering in considerable part the same material, two chapters are then given over to a clear, thorough, and compact description of the more important measures of correlation and their formal interrelationships. The repetition is, however, well worth while, for the material takes on added clarity from the remarkably precise exposition.

The sixth and seventh chapters on problems of inferring the characteristics of a universe from samples, though space does not permit of any discussion, contain important contributions to the subject.

All in all, this is a valuable little treatise (its value is further enhanced by an excellent bibliography), and Mr. Kantorowitsch is to be commended for giving us an able translation. Finally, it should be pointed out

adds interest to the subject, provided the problems do not require too much

that, though the title suggests a burden of mathematics, a substantial part of the volume can be read profitably by the non-mathematician.

DAVID W. LUSHER

Bowdoin College

NEW BOOKS

ARKIN, H. and COLTON, R. R. *An outline of statistical methods.* 4th ed. (New York: Barnes and Noble. 1939. Pp. 271. $1.75.)

BRINTON, W. C. *Graphic presentation.* (New York: Brinton Assoc. 1939. Pp. 512. $5.)

CLARK, C. *A critique of Russian statistics.* (London: Macmillan. 1939. Pp. v, 76. $2.60.)

The title is misleading. It should be called computation of the Russia's national income expressed in market values prevailing in Great Britain during a base year (1934). This is done because prices in Russia do not necessarily bear any determinate relation either to the cost of production or to the consumers' demand.

Russia's real income per head of population at 1934 sterling prices was (deducting for depreciation) £20.1 in 1913, £18.8 in 1928 and £19.6 in 1934. The slow progress for 1928-34 was due to "a serious decline in agricultural productivity which offset the industrial gains." No systematic data were published after 1934; but from sporadic information the author concludes that considerable progress was made after that year, the average income rising by as much as 42 per cent between 1934 and 1937.

In spite of great ingenuity and remarkable skill displayed by the author, such computations are vague and unreliable. The census of 1939 revealed that all previous soviet computations of population were astonishingly inaccurate. Moreover, Mr. Clark does not seem to be familiar with soviet economics in general. For instance, he is surprised at the astounding "disguised unemployment" (in form of surplus rural population) known to all Russian economists and does not know that the soviet government is barring an influx of rural population into the cities by rigid passport regulations.

PAUL HAENSEL

CROXTON, F. E. and COWDEN, D. J. *Applied general statistics.* (New York: Prentice-Hall. 1939. Pp. xviii, 944. $4.)

It is indeed fortunate that, at last, someone has had the courage to put into one volume sufficient instructional statistical material to serve as the basis for an extended course of study and enough accessory tables to make the book worth keeping by students who have completed their training. Standard topics, including charts, distributions, significance, time series, and correlation, are presented in the order stated. A number of sub-topics have been considered including the more modern treatment of small samples. There is an extensive appendix containing derivations, tables, and a glossary of symbols. The authors, for the most part, have avoided the usual cryptic exposition that characterizes statistics texts. The illustrative material, as the title indicates, has not been selected from a single field. Varied and well chosen examples from the natural, physical, and social sciences have been used. A wide variety of illustrations

same criterion) can ascertain which branches of cultivation it will pay to ex-

adds interest to the subject, provided the problems do not require too much general information outside the range of the student's field of specialization. Finally, the authors make no attempt to hide the fact that statisticians freely use the mathematical technique. Although nothing but algebra shows above the surface, probably, it was not expected that this book would be used by those unfortunate and unhappy statistics instructors who are forced to teach courses having no mathematical prerequisites.

E. B. Dade

Mahalanobis, P. C., editor. *Proceedings of the first session of the Indian Statistical Conference, held in Calcutta, January, 1938.* (Calcutta: Stat. Pub. Society. 1938. Pp. iv, 311.)

Papers are given on theoretical, agricultural, medical, public health, economic and industrial statistics. At the theoretical sessions—chairmanned by Professor R. A. Fisher, who also acted as president of the Conference—R. C. Bose and S. N. Roy read an important paper on the distribution of one form of Mahalanobis' D^2—a function which is useful as a measure of divergence of different populations. P. V. Sukhatme presented tables on the Fisher-Behrens test of the difference in the means of two normal samples. In testing the hypothesis that two samples come from populations of the same means, this test, unlike the t-test, does not neglect the possibility that differences actually found may be due to differences in the variances of the populations in question.

The section on agricultural statistics is interesting. Almost all papers in this class give illustrations of the Fisher-Yates technique of experimentation, the data being drawn from Indian research. Mixed yields, estimation of missing yields, randomized blocks, confounded arrangements, and factorial design are illustrated. Complex experiments of an order rarely seen in the publications of American agricultural stations are given in abundance.

H. A. Freeman

Milhau, J. *Prix et production en agriculture: étude économétrique de quelques marchés agricoles.* (Paris: Recueil Sirey. 1938. Pp. xiii, 76.)

Starting from the law formulated by Gregory King at the close of the seventeenth century, to the effect that the total value of a crop of wheat diminishes when the size of the crop increases, and conversely, M. Milhau presents a simple mathematical proof to demonstrate that, assuming negative linear correlation between supply and price, the theoretical relation between the size of the crop and its total value may be expressed as a parabolic function, in which, as the size of the crop increases, its total value first increases from zero to a maximum and thereafter gradually diminishes again to zero. During the first half of this process (the A stage) an increase in size of crop is accompanied by an increase in total gross receipts of the cultivators until the maximum is reached; after this (in the B stage) any further increase in size of crop (other things remaining equal) results in a diminution of its total value until the theoretical limit at which the crop is so large as to have no economic value whatever. The validity of King's law is limited to the B stage. With a knowledge of the actual relationship between supply and price (obtainable by correlation) the author shows how the actual equations can be worked out, the optimum volume of production (as judged by maximum gross receipts for the cultivators) can be calculated and the economic statistician (still relying on the

The relation between changes in national income and net savings, *i.e.*, the "net investment multiplier" was found to be between 4½ and 7 for the pre-war, and between 4 and 5½ for the post-war period. The method of calculatio

same criterion) can ascertain which branches of cultivation it will pay to expand and which to curtail. Application of the method to data for five commodities produced in France from 1929 to 1935 is shown to indicate that under the conditions of demand and supply then prevailing, an increase in the production of potatoes or beans would have diminished gross agricultural income, while an increase in production of cherries, peaches, and walnuts (for which demand was increasing) would have increased total gross agricultural income.

It is not necessary to emphasize several obvious limitations of this technique as a sole guide to agricultural policy. Even if agriculture were controlled by some organization with ever-complete statistical data, it is not likely that policy would be directed toward maximum total gross receipts for the cultivators as a whole regardless of their costs of production; and the practical adoption of any such formula would be further hindered by considerations of changing demands, international trade, and other aspects of economic policy. Despite these and other practical objections, the treatment of the subject will be of interest to the mathematical theorist for its illustrations of the concepts of varying elasticity of prices and saturation of demand, and as an effort to explore the theoretical possibilities of determination of a market and ascertainment of conditions of equilibrium.

HUBERT R. KEMP

RADICE, E. A. *Savings in Great Britain, 1922-1935: an analysis of the causes of variations in savings.* (New York: Oxford Univ. Press. 1939. Pp. 146. $3.25.)

The subtitle of this statistical study formulates its aim. As such it is complimentary to Colin Clark's books. The analytical method is that of multiple correlation. The analysis is functional but the results are significant enough to allow tentative suggestions as to causations.

A theoretical discussion of the determinants of savings results in the working hypothesis that savings are a function of the level and the distribution of incomes, and of the interest rate. The author is careful to point out the difficulties of correlating time series. A general linear and logarithmic regression equation is assumed from which the results are exhaustively tested before being accepted.

Personal incomes, net incomes of business concerns, and savings by public bodies are successively subjected to the analysis. The components of savings are treated individually as important shifts from one type to another are obscured by an aggregative analysis. An attempt is made to separate savings by receivers of incomes above and below £250. The best correlations were found to exist between "real" rather than money terms. The "income elasticity" of savings of low income groups was found to be higher than that of the higher income groups, a result which tallies well with Colin Clark's figures.

A close linear relation between business savings and interest and profits was found. If business and private savings are compared it appears that the income elasticity of the richer groups, who save mainly through business firms, was considerably higher. A change in the income distribution in favor of the lower income groups would therefore reduce total savings.

The effect of changes of the interest rate was found to be negligible in the case of business savings, and could not be determined with certainty for personal savings. Savings by the state and local authorities were found to be negligible even in normal times.

SMITH, J. H. *Tests of significance: what they mean and how to use them.* (Chicago: Univ. of Chicago School of Business. 1939. Pp. ix, 90. $1.)

The relation between changes in national income and net savings, *i.e.*, the "net investment multiplier" was found to be between 4½ and 7 for the pre-war, and between 4 and 5½ for the post-war period. The method of calculation brings out clearly the functional rather than causal nature of the multiplier.

The results, of which only a highly inadequate selection has been given, are used to check some of the business cycle theories. The author feels that there is at least evidence that no undersaving took place in Great Britain during the period under consideration.

WOLFGANG F. STOLPER

SMITH, E. L. *Tides in the affairs of men: an approach to the appraisal of economic change.* (New York: Macmillan. 1939. Pp. x, 178. $2.)

Smith, also author of *Common Stocks as Long-Term Investments,* published in 1924 and frequently cited in 1929, needlessly warns that he leaves "the comfortable confines of economics" (p. 4) to conduct "preliminary explorations" in regions occupied by "anthropologists, physicians, psychologists, geophysicists, meteorologists and astronomers" (p. 4).

A newspaper account of the Canadian Biological Conference in 1931 led to a "simple operation" upon an industrial stock price index, resulting in the "Decennial Pattern." This pattern, explained in the first part of the book, is purported to fit the stock price index for each of the last several decades, the upward trend of this index incidentally suggesting that the thesis of the 1924 monograph "need not be discarded" (p. 8). Stock prices following this pattern are concluded to have tended to decline in the third, seventh (and "sometimes" the sixth) and the tenth years of each decade and to rise in the fifth, eighth and the greater part of the ninth years (pp. 11 and 15). However, in view of the many exceptions (pp. 10 and 11) to the pattern's supposed regularity, acceptance of the periodicity of the "Decennial Pattern" becomes exceedingly difficult.

The second part of the book contains an abbreviated analysis of possible relationships between the business cycle and solar radiation as reflected in changes in barometric pressure, rainfall and sun-spot cycles. For a short time, an objective analysis seems about to be undertaken, but the "Decennial Pattern" returns and objectivity disappears. Efforts to substantiate use of the hypothesis of the "Decennnial Pattern" (chaps. 18 and 19), in predicting stock price movements in 1937, fail to prove its efficacy. Perhaps solar radiation affects the business cycle, but our limited knowledge of such influences precludes acceptance of a cyclical pattern thus constructed for use in predicting stock prices and general business conditions.

Statements about the periodicity of the "Decennial Pattern" repeatedly occur in the face of frequent admissions of the inadequacy of the investigation and the author's disclaimer of competence (p. 66) in the fields which he seeks to explore. Only limited familiarity with the literature of the so-called business cycle is revealed and the book is but sparsely documented. Evidence of a desire to analyze scientifically, in spite of hieroglyphic-laden charts, is buried beneath the apparent intent tc establish the "Decennial Pattern." While Smith may desire to encourage research (p. 163) in this direction, his book will hardly challenge economists.

L. DOUGLAS MEREDITH

SMITH, J. H. *Tests of significance: what they mean and how to use them.* (Chicago: Univ. of Chicago School of Business. 1939. Pp. ix, 90. $1.)

This study contains a brief discussion of each of a number of significance tests and a mathematical appendix covering their derivations. The tests included are well known: the binomial p, normal distribution, X^2 for means and goodness of fit, the F-test (Snedecor's more convenient form of the z-test), regression coefficients, correlation coefficient and partial correlation ratios.

Non-statisticians for whom, presumably, this tract was written, will regret the scarcity of examples. On the other hand, the appendix is of high quality. The author's derivations are systematic and good.

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NOTES

The Nominating Committee of the AMERICAN ECONOMIC ASSOCIATION has been appointed: John M. Clark, Columbia University, chairman; William C. Clark, Ottawa, Canada; Corwin D. Edwards, Federal Trade Commission; Harold M. Groves, University of Wisconsin; Earl J. Hamilton, Duke University; John Parke Young, Occidental College. Members are invited to send to the committee the names of persons whom they would like to have considered for the elective offices—president, vice-president, second vice-president and two members of the Executive Committee.

The following names have been added to the membership of the AMERICAN ECONOMIC ASSOCIATION since November 1:

Arthur, H. B., Swift & Co., General Office, Union Stock Yards, Chicago, Ill.
Bailey, R. W., University of Akron, Akron, Ohio.
Bakke, E. W., Dept. of Econ., Yale University, New Haven, Conn.
Baldwin, C. D., 226 Commerce Bldg., University of Illinois, Urbana, Ill.
Ballard, M. L., 1745 K St. N.W., Washington, D.C.
Barnes, Mrs. L., 3133 Connecticut Ave. N.W., Washington, D.C.
Baxter, R. J., University of Pittsburgh, 2332 Cathedral of Learning, Pittsburgh, Pa.
Bearnson, J. B., University of Utah, Salt Lake City, Utah.
Blaser, A. F., Jr., 512 W 122nd St., New York City.
Boehmler, E. W., Central Y.M.C.A. College, 19 S. La Salle St., Chicago, Ill.
Bramble, H. P., 509 W. 121st St., New York City.
Braunthal, A., 39-69 46th St., Long Island City, N.Y.
Brewster, M. R., Georgia Tech., Atlanta, Ga.
Brooks, B. F., Butler University, Indianapolis, Ind.
Buckley, L. F., Box 124, Notre Dame, Ind.
Bunkhead, J., Sterling Hall, Madison, Wis.
Burhans, N.C., 1806 Orchard St., Alexandria, Va.
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Cotton, T. L., 60 E. 42nd St., New York City.
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Davis, W. C., 220 Maple St., Reno, Nev.
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Dorfman, J., Dept. of Econ., Columbia University, New York City.
Dreiman, L. S., University of Minnesota, Minneapolis, Minn.
Durand, J. D., Bureau of the Census, Div. of Population, Washington, D.C.
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Fischer, E. R., 1948 Bathgate Ave., New York City.
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Glasson, W. H., 710 Buchanan Rd., Durham, N.C.
Gutmann, F., University of North Carolina, Chapel Hill, N.C.
Guyton, P. L., Simpson College, Indianola, Iowa.
Haas, F. J., School of Soc. Sci., Catholic Univ. of America, Washington, D.C.
Hald, E. C., Dept. of Soc. Stud., Chico State College, Chico, Calif.
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Handy, W. K., Jr., 6148 Woodlawn Ave., Chicago, Ill.
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Hickman, W. B., Princeton University, Princeton, N.J.
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Kirshen, H. B., Dept. of Econ. and Soc., University of Maine, Orono, Me.
Knight, B. W., Dept. of Econ., Dartmouth College, Hanover, N.H.
Kochenderfer, C. C., Kent State University, Kent, Ohio.
Landon, C. E., Dept. of Econ., Duke University, Durham, N.C.
Lauterbach, A., 11 Washington Terr., New York City.
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Lee, M. W., 122 E. 4 North St., Logan, Utah.
Legan, W. E., 1014 Pine St., St. Louis, Mo.
Lester, A. H., 4302 N. 4th St., Arlington, Va.
Levine, A. J., S. J. Tilden High School, E. 57th St., Brooklyn, N.Y.
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Longman, D. R., University of Rochester, Rochester, N.Y.
McCarthy, P. M., 427 85th St., Brooklyn, N.Y.
Mackenzie, D. H., Coll. of Econ. and Bus., Univ. of Washington, Seattle, Wash.
Maneval, R. K., Pennsylvania State College, Undergraduate Center, Altoona, Pa.
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Martin, R. F., Graduate School of Bus., Stanford University, Calif.
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Montgomery, R. H., University of Texas, Austin, Tex.
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Morse, H. C., 531 W. 122nd St., Apt. A-11, New York City.
Nelson, S., U. S. Dept. of Labor, Bureau of Labor Stat., Washington, D.C.
Newman, W. H., Wharton School, Univ. of Pennsylvania, Philadelphia, Pa.
Norton, J. D. W., 104 Scotland Rd., S. Orange, N.J.
Oliver, C., Jr., 1911 Oleander, Apt. 2, Baton Rouge, La.
O'Neil, L. D., Commonwealth Ave. at Granby St., Boston, Mass.
Ormes, F. R., Wabash College, Crawfordsville, Ind.
Ostrolenk, B., College of the City of New York, 17 Lexington Ave., New York City.
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Rowland, J. P., Dept. of Econ., Chestnut Hill College, Philadelphia, Pa.
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Schmidt, O. A., 1726 M St. N.W., Washington, D.C.
Seymour, H. V., 3614 Newark St. N.W., Washington, D.C.
Shearer, W. W., Wabash College, Crawfordsville, Ind.
Shilland, P. D., University of Illinois, Commerce Bldg., Urbana, Ill.
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Smith, R. J., Div. of Agric. Econ., University of California, Los Angeles, Calif.
Smythe, L. T., Dept. of Econ., Iowa State College, Ames, Iowa.
Soudek, J., 900 W. End Ave., New York City.
Swanson, E. W., Washington State College, Pullman, Wash.
Tamagna, F. M., Xavier University, Cincinnati, Ohio.
Temple, A. H., National City Bank, New York City.

Truitt, G., Hofstra College, Hempstead, L.I., N.Y.
Weisenfeld, A. H., 4 S. Pinehurst Ave., New York City.
Weisskopf, W. A., Econ. Dept., University of Omaha, Omaha, Neb.
Wendt, P. F., Maryville College, Maryville, Tenn.
Wilson, W. C., University of Delaware, Newark, Del.
Woodbridge, F. W., 2326 Scarff St., Los Angeles, Calif.
Woods, R. M., Saint Mary's College, Winona, Minn.
Wright, D. M., Colonnade Club, University of Virginia, Charlottesville, Va.
Wyckoff, V. J., University of Maryland, College Park, Md.

The Pacific Coast Economic Association has elected the following officers: Arthur G. Coons, Claremont Colleges, president; Carl S. Dakan, University of Washington, vice-president; Hampton K. Snell, University of Southern California, secretary-treasurer; Calvin Crumbaker, University of Oregon, editor.

At the eighteenth annual conference of the Pacific Coast Economic Association, held at the State College of Washington and the University of Idaho December 27-29, 1939, papers were read as follows: "The Oregon Anti-Picketing Legislation," by William C. Jones, Willamette University; "The Loyal Legion of Loggers and Lumbermen," by William C. Moore, University of Idaho; "The Economics of the Fair Labor Standards Act," by F. W. Clower, State College of Washington; "Regional Aspects of the Level of Employment," by Robert Terrill, Reed College; "The Present Status of the Theory of Capital," by Floyd F. Burtchett, University of California at Los Angeles; "Capitalization Principle and Depreciation Charges," by Arthur H. Lorig, University of Washington; "The Accountants' Provision for Depreciation and Its Effect on Prices," by Eustace LeMaster, Spokane, Washington; "Depreciation Policy in Periods of Declining Output," by Perry Mason, University of California; "The Economics of Security," presidential address, by Richard B. Heflebower, State College of Washington; "The Sales Tax as a Revenue Measure in Depression Periods," by Malcolm M. Davisson, University of California; "Tax Immunities and Tax Exemptions," by Rex Ragan, University of Southern California; "The Use of Technical Aids in the Assessment of Property," by T. S. Hedges, Washington State Tax Commission; "A Preliminary View of the Work of the Temporary National Economic Committee," by Maurice W. Lee, Utah State Agricultural College; "Rigid Prices, the Evidence Examined," by Robert B. Pettengill, University of Southern California; "Monopolistic Aspects of Trade Unionism," by Morrison Hansaker, Occidental College; "The Status of Institutional Economics," by William E. Folz, University of Idaho; "Erratic Expectations and Money Rates of Interest," by E. S. Shaw, Stanford University; "Statistical Concepts and the Theory of Cost," by G. F. Drummond, University of British Columbia.

The allied social science associations are being served by the following officers during the present year:

American Economic Association—Frederick C. Mills, Columbia University, president; James Washington Bell, Northwestern University, secretary.
American Accounting Association—George A. MacFarland, University of Pennsylvania, president; Henry T. Chamberlain, Loyola University, secretary.
American Association for Labor Legislation—Joseph P. Chamberlain, Columbia University, president; John B. Andrews, American Labor Legislation Review, 131 East 23rd Street, New York City, secretary.
American Association of University Teachers of Insurance—David McCahan, University of Pennsylvania, president; Chester A. Kline, University of Pennsylvania, secretary.
American Farm Economic Association—H. B. Price, University of Kentucky, president; Asher Hobson, University of Wisconsin, secretary.

AMERICAN MARKETING ASSOCIATION—Donald R. G. Cowan, Swift & Company, Chicago, president; Albert Haring, Indiana University, secretary.
AMERICAN POLITICAL SCIENCE ASSOCIATION—Robert C. Brooks, Swarthmore College, president; Kenneth Colegrove, Northwestern University, secretary.
AMERICAN SOCIOLOGICAL SOCIETY—Robert M. MacIver, Columbia University, president; Harold A. Phelps, University of Pittsburgh, secretary.
AMERICAN STATISTICAL ASSOCIATION—F. Leslie Hayford, General Motors Corporation, New York City, president; Frederick F. Stephan, 1626 K Street, N.W., Washington, D.C., secretary.
ECONOMETRIC SOCIETY—Joseph A. Schumpeter, Harvard University, president; Alfred Cowles, Cowles Commission, University of Chicago, secretary.
INSTITUTE OF MATHEMATICAL STATISTICS—S. S. Wilks, Princeton University, president, P. R. Rider, Washington, secretary.
TAX POLICY LEAGUE—Harold S. Buttenheim, Editor, *The American City*, president; Miss Mabel L. Walker, Tax Policy League, 309 East 34th Street, New York City, secretary.

At the midyear meeting of the Mississippi Valley Historical Association held at Washington December 28-30, papers were read as follows: "The Railroads as a Social Force," by Richard C. Overton, Chicago, Burlington and Quincy Railroad; "The Railroads as an Economic Force," by Leland H. Jenks, Wellesley College; "The Railroads and the Scope of Government Activity," by Edward G. Campbell, National Archives.

A memorial meeting in honor of Professor Edwin R. A. Seligman, McVickar professor of political economy at Columbia University, was held December 13, 1939, at the Low Memorial Library. Addresses were made by President Butler, Alvin S. Johnson, Robert Murray Haig, James T. Shotwell, Mary K. Simkhovitch, and Mabel P. H. Lee.

Because of the war, the session of the International Statistical Institute scheduled to be held May 10-18, 1940, has been indefinitely postponed. The eighth American Scientific Congress will be held in Washington as scheduled on these dates; and a statistical section has been added to this Congress as a substitute for the meeting of the International Statistical Institute.

The second Conference on Consumer Education will be held at Stephens College, Missouri, April 1-3.

The twenty-second annual meeting of the American Association of Collegiate Schools of Business will be held at the University of Texas, Austin, April 18-20.

Announcement is made of the Public Service Fellowship established in 1934 by the former Women's Organization for National Prohibition Reform. This Fellowship offers a sum of $1,300 for a year of graduate study at an approved college or university in one or more of the related fields of economics, government, history and sociology. The award is made annually by the faculty of Barnard College to a woman who has graduated within the past five years and who shows promise of usefulness in public service. Further information may be obtained from Professor Maude A. Huttman, Barnard College, Columbia University.

The original records of Brook Farm are being edited for publication by Arthur E. Bestor, Jr., assistant professor of history at Columbia University. The editor solicits the aid of collectors in locating manuscripts, particularly

letters written from Brook Farm or diaries kept by members of the community. Address Arthur E. Bestor, Jr., Box 386, Teachers College, Columbia University.

James E. Gould, professor of transportation in the College of Economics and Business at the University of Washington, died November 11, 1939.

Max S. Handman, professor of economics at the University of Michigan, died December 26, 1939.

Appointments and Resignations

Wendell M. Adamson has been promoted from the rank of instructor to that of assistant professor of statistics at the University of Alabama.

Paul E. Alyea has been promoted from assistant professor to associate professor of economics at the University of Alabama.

A. E. Andress, formerly instructor in economics at Princeton University, is assistant professor of economics at Hiram College.

J. Douglas Brown, professor of economics and director of the Industrial Relations Section of Princeton University, is on sabbatical leave for the second term of this year, studying current problems in industrial relations and social insurance. He will also deliver lectures on social security at Johns Hopkins University.

Henry A. Burd has resumed his duties as professor of marketing in the College of Economics and Business at the University of Washington after an absence of one quarter.

H. H. Chapman, director of the University of Alabama Bureau of Business Research, has been appointed a member of the Employer-Experience Rating Committee of the Department of Industrial Relations of the State of Alabama.

J. B. Condliffe, formerly of the London School of Economics, is professor of international trade at the University of California, Berkeley, succeeding Dr. Henry F. Grady, who resigned two years ago.

A. C. Dambrun, formerly assistant in economics at Princeton University, is instructor in economics at Montana State University.

George M. Dougherty, Jr., of the University of Pennsylvania is acting instructor of transportation in the College of Economics and Business at the University of Washington.

Paul H. Douglas of the University of Chicago has been elected a member of the Chicago City Council for a term of four years.

Roy L. Garis of Vanderbilt University will be a visiting professor at the University of Southern California in the department of economics for the summer session of 1940.

Anton deHaas of the Graduate School of Business Administration of Harvard University, will be a visiting professor at the University of Southern California in the department of economics for the summer session of 1940.

Everett D. Hawkins of Mount Holyoke College has been granted a semester's leave of absence during which he will be visiting professor in the Industrial Relations Section of the California Institute of Technology.

K. Helleiner of Vienna has been attached to the department of political economy of the University of Toronto.

Paul T. Homan of Cornell University will deliver lectures on competition, government regulation and social control as visiting lecturer at Johns Hopkins University during the second semester.

Everette N. Hong has been appointed lecturer in economics for 1939-1940 at the University of Southern California.

Hiram L. Jome of DePauw University will be acting professor of economics and finance at the University of Missouri during the coming summer session.

Chester H. Knight has been promoted from associate professor of accounting to professor at the University of Alabama.

F. A. Knox is acting chairman of the department of economics at Queen's University, Canada.

S. Owen Lane has been appointed teaching assistant at the University of Southern California for 1939-1940.

Richard A. Lester has resumed his duties in the College of Economics and Business at the University of Washington.

Gertrud Lovasy of Vienna is a visiting lecturer at Wellesley College during the month of March.

Donald H. Mackenzie of the University of Washington has been granted leave of absence to take a position for the second semester at the Graduate School of Business Administration of Harvard University.

W. A. Mackintosh, professor of economics at Queen's University, Canada, has been granted a leave of absence for the duration of the war in order to be special assistant to the Deputy Minister of Finance, Ottawa.

C. Ward Macy of the economics staff of Coe College, has been appointed chairman of the recently established division of social sciences.

Vernon A. Mund, professor of economics in the College of Economics and Business at the University of Washington, has been granted a leave of absence for the spring quarter of 1940 to make a field study of industrial prices.

Millard Peck of the United States Department of Agriculture became on July 1, 1939, the regional leader of the Division of Land Economics, Bureau of Agricultural Economics, having charge of the field work of the Division of Land Economics in both the northern and southern Great Plains, with headquarters at Lincoln, Nebraska.

John A. Pfanner, Jr., instructor in business organization and management, has been promoted to the rank of assistant professor at the University of Nebraska.

Lloyd P. Rice has resumed his teaching in Dartmouth College after a leave of one and one-half years to serve as financial adviser to the Philippine Government in connection with a revision of tax systems.

I. L. Sharfman, professor of economics at the University of Michigan, is on a sabbatical leave during the second semester of the present academic year.

Donald P. Sherman has been promoted from assistant professor to associate professor of economics at Michigan College of Mining and Technology.

R. G. H. Smails is co-director of the School of Commerce at Queen's University, Canada.

Frank H. Sparks is lecturer in economics for 1939-1940 at the University of Southern California.

William A. Spurr has been appointed acting chairman of the department of business research in the University of Nebraska.

Wendell P. Trumbull has been appointed lecturer in accounting and management at the University of Washington for the period from February to July, 1940.

Roland S. Vaile of the University of Minnesota is serving as economic consultant with Cargill, Inc., grain merchants of Minneapolis.

C. E. Walker is co-director of the School of Commerce at Queen's University, Canada.

N. Wollman, formerly assistant in economics at Princeton University, is instructor in economics at Colorado College.

William H. Wynne has been appointed associate professor of economics at the University of Michigan for the second semester of the present academic year.